

TOWN OF STONEHAM, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2020



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Management
Town of Stoneham, Massachusetts

In planning and performing our audit of the financial statements of the Town of Stoneham, Massachusetts (Town) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

However, during our audit we became aware of deficiencies in internal control (other than significant deficiencies and material weaknesses) that are opportunities to strengthen your internal control and improve the efficiency of your operations. We also want to make you aware of recently issued accounting standards that may significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated March 10, 2021, on the financial statements of the Town.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with Town personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The Town's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of Selectmen and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
March 10, 2021

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Comments and Recommendations

Employee Handbook

Comment

The Town does not have a formal, written employee handbook outlining the Town's expectations of its employees. The handbook should include policies and procedures relative to all Town policies for employees including, but not limited to, the following:

- Town business policies
- Standards of conduct
- Technology and communication policies
- Compensation and benefits policies
- Procedures surrounding suspected or known fraudulent activity, such as a whistleblower policy
- Formal periodic review process for evaluating employee performance.

Recommendation

We recommend management develop and implement a formal employee handbook.

Management's Response

The absence of many approved policies has been a major impediment in producing a formal employee handbook. The policies that do exist need to be updated, approved and then they will be integrated into a formal handbook. Coordination of all these policies; existing Town policies, personnel code and required Federal and State mandates, must also take into account of the Towns' eight Collective Bargaining agreements. Continued efforts to update this complicated process will continue this coming year with goal to put the town closer to a robust formal employee handbook.

Risk Assessment and Monitoring

Comment

The Town established its financial management team as part of the implementation of the financial policies and procedures manual in 2019. This team is tasked with the review of the effectiveness of internal controls, proposal of internal audits, and development of corrective action plans for citations in audit reports. However, the financial policies and procedures manual did not include a formally documented risk assessment program and the Town has not developed or implemented a risk assessment or monitoring program.

When internal controls are *initially* implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment (which includes fraud risk assessment), is one element of internal control.

The risk assessment should be performed by management-level employees who have extensive knowledge of the Town's operations. Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the Town's operations, its environment, and its processes. The risk assessment process should consider the Town's vulnerability to misappropriation of assets. It should also address operations that involve heightened levels of risk. When conducting the assessment, the following questions should be considered:

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?
- What prior internal control issues could still continue to be problematic?

Once the areas vulnerable to risks have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted. The Town should consider what additional controls (if any) need to be implemented to reduce risk.

After risk has been assessed, periodic monitoring of the identified risk areas must be performed in order to evaluate the controls that have been implemented to mitigate the risks. Since control-related policies and procedures tend to deteriorate over time, the monitoring process ensures that controls are fully operational and effective.

Recommendation

We recommend the Town's financial management team develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the Town's financial policies and procedures manual.

We further recommend the financial management team develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

Management's Response

The town's financial management team began the process of evaluating risk assessment and formalize a plan to deal with such prior to the COVID Pandemic. Individual Risk Assessment questionnaires were created but could not be completed due to the pandemic.

Information Technology

Comment

We evaluated the computer processing environment and general controls that help ensure the reliability of the business and financial systems that support the Town's business objectives and identified the following:

1. There are no formal IT policies in place. This presents the risk that information security and data management functions are largely tactical in nature and not adequately supported.
2. The process of adding users is not formalized. This presents the risk that unauthorized users may be given access to the Town's systems.
3. Nine (9) terminated Town employees were identified that still appear to have active accounts in the Active Directory and in the Munis application.
4. The Town has not recently undergone an IT risk assessment. This presents the risk that vulnerabilities and threats the Town's network is exposed to will not be detected or prevented.
5. The Town has several "SuperUser" accounts for the MUNIS application that have accounting roles/functions within the Town. One (1) of the SuperUser accounts belongs to a terminated employee.

Recommendation

We recommend the following:

1. Formal policies be developed to govern the IT department including, but not limited to, the following areas:
 - a. Vendor management
 - b. Physical and logical access
 - c. Change management
 - d. Data backup & storage
 - e. Information security incident response
 - f. Applications
 - g. Servers, workstations and network

The policies should be documented to reflect current practices, reviewed and updated by management on an annual basis, and communicated to appropriate employees.

2. User access should be done with a standard process that includes appropriate approvals of the level of access being granted.
3. A periodic user access review over the Town's network and applications should be implemented and documented via a sign-off by the employee completing the review. The results should also be retained by the employee completing the review.
4. A formal IT risk assessment should be performed and documented annually.

5. The accounts with the SuperUser role within Munis should be re-assessed on a periodic basis to ensure that access is appropriate and only individual with job responsibilities that require SuperUser access be granted that role (i.e. restrict individuals with accounting functions to only their necessary roles).

Management's Response

1. The town will work to create formal written polices in the areas listed. The town does have policies but have not documented them.
2. The town will review user access policies and tighten them up where necessary.
3. The town did a user access review where employees signed off, but that was many years ago. We will revisit this.
4. The town had a 3rd party perform a penetration testing June 2020. We will perform an IT risk assessment this fiscal year.
5. The town will re-assess the superuser role in Munis as well as our Windows domain.

Health Insurance Withholdings

Comment

Procedures are not in place to reconcile health insurance withholdings balances reported on the general ledger to the appropriate support/subsequent liquidation. This is a weakness in internal control over cash disbursements.

Recommendation

We recommend procedures be implemented to reconcile the activity in the health insurance withholding accounts monthly.

Management's Response

Procedures have been put in place to reconcile current year withholdings and the town is working on reconciling prior year deductions and will make the necessary adjustments in FY2021.

Cash Receipts

Comment

Cash receipts are collected by various departments and are subsequently remitted to the Treasurer/Collector's Office for deposit. The current decentralized system presents the risk that assets will not be properly safeguarded from the point of collection to the time of deposit.

Recommendation

We recommend all customer cash receipts be received directly by the Treasurer/Collector's office. As part of this process, the Treasurer/Collector's Office should provide a receipt to the customer that identifies, at a minimum, the date, time, amount and purpose of the receipt so proof of payment can be provided by the customer to the applicable department.

Management's Response

The Treasurer's Office will review this recommendation with the Town Administrator.

Fiduciary Activities (Informational Only)

Comment

In January of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities*, which establishes new criteria for identifying and reporting fiduciary activities of state and local governments. The criteria generally focuses on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom the fiduciary relationship exists.

Activities meeting the criteria will be required to report (1) a statement of fiduciary net position and (2) a statement of changes in fiduciary net position in one of the following four fiduciary fund types in the basic financial statements:

1. Pension (and other employee benefit) trust funds
2. Investment trust funds
3. Private-purpose trust funds
4. Custodial funds

Furthermore, agency funds will no longer be reported and activities that do not meet the new fiduciary fund criteria will be reported as resources of the government.

Any changes in activities adopted to conform to the provisions of GASB Statement No. 84 will require a restatement of beginning net position/fund balance.

The Town's required implementation date is fiscal year 2021.

Recommendation

We recommend management familiarize itself with the requirements of GASB Statement No. 84 and prepare for its implementation.

Management's Response

The Town's management will familiarize itself with these requirements.

Lease Accounting and Financial Reporting (Informational Only)

Comment

In June of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which establishes new financial reporting requirements for governments that enter into lease contracts.

The implementation of this Statement will represent a significant change in the accounting and financial reporting of leased assets, as well as lease liabilities. The implementation of this statement requires:

- Leases previously classified as operating leases to be recognized as lease assets or lease liabilities.
- Lessees to recognize a lease liability and an intangible right-to-use lease asset.
- Lessors to recognize a lease receivable and a deferred inflow of resources.
- Expanded note disclosures.

The Town's required implementation date is fiscal year 2022.

Recommendation

We recommend management familiarize itself with the requirements of GASB Statement No. 87 and prepare for its implementation.

Management's Response

The Town's management will familiarize itself with these requirements.

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