

CITY OF WORCESTER, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2008



Certified Public Accountants

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To the Honorable Mayor and City Council
City of Worcester, Massachusetts

In planning and performing our audit of the financial statements of the City of Worcester, Massachusetts (City) as of and for the year ended June 30, 2008, 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 City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Our comments and recommendations concerning those matters are summarized in the memorandum that accompanies this letter. This letter does not affect our report dated October 27, 2008, on the financial statements of the City.

The City'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 City Council and others within the organization and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'Sullivan, Rogers & Company, LLC', is written over a horizontal line.

October 27, 2008

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Comments and Recommendations

Hope Cemetery

Comment

We reviewed the systems of internal control related to the Hope Cemetery and identified the following deficiencies:

1. The Hope Cemetery does not have an adequate point of sale system (i.e. cash register that has a visible amount rung up or a pre-numbered receipt book, and a sign that says that you should be sure to ask for a receipt) for their cash collections. As a result, the Hope Cemetery cannot perform the following reconciliations:
 - a. Daily reconciliations between cash collections per the point of sale system to cash counted at the end of the day. Performance of these reconciliations provides assurance that the proper amount of cash has been collected and recorded.
 - b. Monthly reconciliations between revenues per the point of sale system to revenues recorded in the general ledger. Performance of this reconciliation provides assurance that revenues are properly recorded on the general ledger.
2. The Hope Cemetery generates quarterly invoices for lot sales and other services. The Hope Cemetery's system of internal control over the accounts receivable does not include providing a commitment to the City Auditor. Therefore, there is no external control over the accounts receivable and there are no reconciliations of outstanding receivables performed between the Hope Cemetery's detail receivable records and a control account maintained by the City Auditor on the general ledger. This does not provide the City with adequate control over this asset.
3. The Hope Cemetery could not locate the December 2007 departmental revenue transmittal forms. This does not comply with the Massachusetts record retention law and does not provide for an adequate audit trail.
4. The Hope Cemetery does not deposit its cash receipts timely. We performed a test of 25 deposits made during the year, and found that 12 of those deposits were not made timely (within 24-48 hours from collection). The lag time from collection to deposit ranged from 8 days to 36 days. The Hope Cemetery should deposit its cash receipts daily or more often if necessary. This control helps prevent major loss by theft. It also promotes timely and accurate financial reporting in the general ledger.
5. Deposit turnovers and the related supporting documents are not reviewed prior to submission to the Treasurer/Collector's Office (T/C). Supervisory reviews of deposit turnovers reduce the potential for human error and asset misappropriation.
6. Payroll timesheets for seasonal employees are not reviewed and approved by a supervisor. Supervisory reviews of timesheets reduce the potential for inaccurate reporting of time and improper payroll charges.

Recommendation

We recommend that the Hope Cemetery:

1. Implement a point of sale system (cash register, pre-numbered receipt book, etc.) and implement procedures to perform the following reconciliations:
 - a. Daily reconciliations between cash collections per the point of sale system to cash counted at the end of the day
 - b. Monthly reconciliations between cash collections per the point of sale system to cash receipts recorded in the general ledger.
2. Implement a process whereby the quarterly invoices are forwarded to the City Auditor's office so a receivable can be recorded and maintained on the general ledger.
3. Retain copies of all financial records (such as revenue transmittal forms) for at least seven (7) years, in accordance with Massachusetts General Laws (MGL), Chapter 66, Section 8.
4. Deposit receipts in a timely manner (within 24-48 hours from collection).
5. Implement procedures requiring supervisory review and sign-off of deposit turnovers before they are submitted to the T/C.
6. Implement procedures requiring supervisory review and sign-off of timesheets before they are submitted for payroll processing.

Management's Response

1. There are very few actual payment transactions made at the Cemetery office. No cash transactions are allowed at Hope Cemetery. A sign will be posted to let people know there are no cash transactions at Hope Cemetery and that every transaction will be accompanied by a receipt.
 - a. There are daily check logs that list payments received at the office. These are posted to outstanding invoices and are transmitted to the Treasurer on a routine basis. (A minimum of two times per week.)
 - b. All transactions are reconciled to the City's financial system (HERA) by Department of Public Works & Parks (DPW & P) Accounting staff to verify proper posting and depositing into specified accounts.
2. The billing cycles have now been changed for more efficient cash flow. All new invoices are billed monthly. New reports are being generated and DPW & P will be working with Auditing to provide information to initiate an accounts receivable for required outside control. Hope Cemetery is implementing procedures to ensure Auditing Department's oversight.
3. The Hope Cemetery Office could not locate the December 2007 departmental transmittal forms. However, there are duplicates filed at the DPW Business Office, which are used to monitor, review, and reconcile all financial activity performed at the cemetery office. This transmittal is available. Copies of all transmittals will be retained for at least seven (7) years as recommended.

4. There had been a lack of timeliness in transmitting some receipts in early fiscal year 2008, but this issue has been addressed and corrected. It is acknowledged that transmitting receipts in a timely basis is very important and office personnel are acutely aware of this. Procedures were put into place in November 2007 to make sure there are no delays in transmittals. The cemetery has also purchased a safe specifically for any checks that may have to be held overnight, which is the longest any receipts should be held.
5. A new process to review deposits and related supporting documents that are submitted to the Treasurer's Office was put into place in July. An accountant reviews all the documents and copies are then forwarded to a Chief Accountant for reconciliation. All transmittals are checked for proper depositing. The amounts and specific accounts are reviewed for accuracy every month during this reconciliation. Deposits are also now signed by another party besides the Cemetery Manager prior to being forwarded to Treasurers. (Accountant or Chief Accountant – July 2008)
6. The Department was confident that pool payroll (temporary employees) was being prepared properly, including the review by a supervisor. However, given this recommendation, there are now additional procedures in place that requires pool payroll sheets to be signed by a supervisor prior to being processed for payment. Without an authorized signature, pool payroll will not be processed.

Library

Comment

We reviewed the systems of internal control related to the Library and identified the following deficiencies:

1. The software program (C/W MARS) that records cash receipts and other financial information is used by multiple employees during the day. Therefore, any variances identified during cash receipt reconciliation procedures cannot be traced to a single employee.
2. All Library employees have access to customer account balances in C/W MARS. As a result, customer account balances may be accessed by unauthorized personnel.
3. Cash collections are kept in unlocked drawers and are therefore not properly safeguarded prior to deposit.
4. The Library does not perform daily reconciliations between cash collections recorded in C/W MARS to cash counted at the end of the day. Performance of these reconciliations provides assurance that the proper amount of cash has been collected and recorded.
5. Deposit turnovers are not reviewed prior to submission to the Treasurer/Collector's Office (T/C). Supervisory reviews of deposit turnovers reduce the potential for human error and asset misappropriation.
6. Four (4) of the 10 timesheets tested were not signed off by a supervisor indicating that the timesheets had been reviewed and approved. Supervisory reviews of timesheets reduce the potential for inaccurate reporting of time and improper payroll charges.
7. Each of the 10 deposit transmittal forms tested did not have any supporting documentation (ex. reports from C/W MARS) attached to them. The lack of supporting documentation behind each deposit transmittal does not provide a clear audit trail.

Recommendation

We recommend that the Library:

1. Require employees (if possible) to log in and out of the program so that a record of transactions processed by each employee is maintained.
2. Institute a policy and implement computer controls (password protection, etc.) that limits access permissions to customer account balances to only the appropriate employees in order to reduce the risk of unauthorized access to customer accounts.
3. Implement stronger security measures to safeguard cash collections. For example, the Library could utilize a locked drawer or locked cabinet for which the key is only accessible by the appropriate personnel.
4. Implement procedures to perform daily reconciliations between cash collections recorded in C/W MARS to cash counted at the end of the day.
5. Implement procedures requiring supervisory review and sign-off of deposit turnovers before they are submitted to the T/C.

6. Implement procedures requiring supervisory review and sign-off of timesheets before they are submitted for payroll processing.
7. Implement procedures to attach documentation (ex. C/W MARS reports) to each deposit transmittal form that supports the amounts being turned over to the T/C.

Management's Response

As part of the Regional Library system, the Worcester Public Library administratively operates utilizing the Central/Western Massachusetts Regional System (C/W MARS) in all facets of library operations. This system was designed with the functionality required for Library management and although it contains point of sale (POS) functionality which is utilized in the operation of the Library, its primary functionality was not designed as an accounting system. To augment the inherent limitations of the C/W MARS system the Library will work with the Treasurers Office to enhance internal controls as follows:

1. The C/W MARS system only provides for one login access into the system. To capture individual transactions by employee the Library will review the potential of utilizing the City's central cash module as an alternative POS register.
2. The C/W MARS system, as designed, does not provide for levels of security, i.e. limitations to access to customer accounts. The City shall implement the central cash module or make enhancements to the existing procedures to reduce the inherent risk which arises from unfettered access to customer accounts. Policies and procedures manuals shall be developed.
3. Keyed locks shall be installed and/or individual cash boxes shall be purchased for each workstation in which collections are made.
4. Daily procedures have been developed and implemented for end of day cash reconciliations.
5. Supervisory review and approvals prior to turnover to the Treasurers Office have been included as a component of the Daily Cash Receipts procedures.
6. Procedures requiring supervisory review and approval of time slips prior to the processing of payroll has been implemented.
7. Inclusion of the documentation (reconciliation) of daily cash receipts from the C/W MARS system with the departmental turnover to the Treasurers Office is a component of the Daily Cash Receipts procedures.

License Commission

Comment

We reviewed the systems of internal control related to the License Commission (the Commission) and identified the following deficiencies:

1. There is no formal financial policies and procedure manual that details the Commission's financial activities. Such a manual would define, improve and standardize procedures and eliminate inconsistencies in the processes surrounding the Commission's financial activities. It would also enhance the ability to train and supervise new staff in the event of employee turnover.
2. The Commission maintains an automated log of the licenses and permits issued. However, the log does not contain information related to amounts paid, the dates of payment and license/permit number. As a result, reconciliations between cash collections and the number of licenses and permits issued cannot be performed. Performance of these reconciliations provides assurance that the proper amount of cash has been collected and recorded for the licenses and permits issued by the Commission.
3. Deposit turnovers are not reviewed prior to submission to the Treasurer/Collector's Office (T/C). Supervisory reviews of deposit turnovers reduce the potential for human error and asset misappropriation.

Recommendation

We recommend that the Commission:

1. Prepare a formal, detailed financial policies and procedures manual for the Commission's financial activities.
2. Fully utilize the automated log of licenses and permits issued by entering the following information into the log:
 - a. Date paid
 - b. License/permit number issued
 - c. Amount paid

We also recommend that the Commission utilize the automated log to reconcile cash receipts to the number of licenses and permits issued on a daily basis. The reconciliations should be reviewed and signed-off by the preparer and reviewer and maintained on file.

3. Implement procedures requiring supervisory review and sign-off of deposit turnovers before they are submitted to the T/C.

Management's Response

The City's License Commission operates with internal systems developed by administrative support staff. The City will transition the financial operations over to the City's integrated financial management system (IFMS). License billing shall be issued from the City's miscellaneous receivable (billing) module with receipting being conducted through the City's central cash module. With this implementation, the observed comments shall be addressed as follows:

1. With the implementation by Administration and Finance a formal, detailed policies and procedures manual are developed.
2. The miscellaneous receivable module provides an electronic record of all aspects of licenses/permits applied for and issued by the City of Worcester.
3. The policies and procedures manual will require supervisory review and approval prior to turnover to the Treasurer's Office.

Unauthorized Bank Accounts Using the City's Tax Identification Number

Comment

We identified three bank accounts that are using the City's tax identification number, but are not authorized by the Treasurer or accounted for in the general ledger. Since these accounts are maintained under the City's tax identification number, the City is at risk if fraudulent activities were to occur in any of these accounts. Additionally, the Treasurer should have signature authority on all bank accounts maintained under City's tax identification number and the activity related to the bank accounts should be recorded in the general ledger.

Details related to the three bank accounts are as follows:

<u>Bank</u>	<u>Account Number</u>	<u>Account Title</u>	<u>Balance at June 30</u>
Millbury Federal Credit Union	2432602160	Goddard Sunshine Fund	\$ 358.65
Millbury Federal Credit Union	2432802178	Goddard School Parents Group	1,233.15
Millbury Federal Credit Union	2432002163	Goddard Goods	730.74

Recommendation

We recommend that the Treasurer/Collector investigate the nature, purpose and activity of the accounts and take appropriate action.

Management's Response

The Treasurer's Office has researched the three accounts in question and determined that the accounts in question were not City sanctioned accounts and said accounts have been closed. At the beginning of each fiscal year, the City has requested the School Department Business Office to enforce the City's policy with non-sanctioned bank accounts at the principals meeting at the commencement of the new school year.

Green Hill Golf Course

Comment

During the prior year audit, we evaluated the systems of internal control related to the Green Hill Golf Course (Green Hill) and identified several control deficiencies. During fiscal year 2008, the City implemented controls to resolve some of these deficiencies. However, the following control deficiencies remain unresolved:

1. While the process of writing a formal financial policies and procedure manual has started, a completed manual that details the various aspects of Green Hill's operations does not exist. Such a manual would define, improve and standardize procedures and eliminate inconsistencies in the processes surrounding Green Hill's operations. It would also enhance the ability to train and supervise new staff in the event of employee turnover.
2. The cash registers at Green Hill are used by multiple employees during the day. Therefore, any variances identified in the cash count at the end of the day cannot be traced to a single employee.
3. Alarm codes to the Pro Shop have not been changed in approximately six years. This is a weakness in safeguarding assets because it increases the risk that former employees could use the alarm codes and bypass Green Hill's security.
4. Green Hill sponsors various tournaments throughout the year. There is presently no reconciliation performed between a listing of tournament participants and the revenue recorded in the POS system. This reconciliation procedure would provide assurance that each participant paid the proper fees and that all fees collected were recorded.
5. Six (6) of 15 deposits tested were not made in a timely manner (within 24-48 hours from collection). Of these 6 deposits, the lag time from collection to deposit ranged from 4 to 13 days. The lack of timely deposits is a weakness in safeguarding assets and increases the risk of asset misappropriation. It also inhibits timely and accurate financial reporting since there are delays in recording revenue in the general ledger.
6. Cash receipts recorded in the POS system are not reconciled to those recorded in the general ledger. As a result, there is no assurance that revenues are properly recorded in the general ledger.
7. In regards to pro shop physical inventory counts, Green Hill did not perform a physical inventory as of June 30, 2008 or at any time during fiscal year 2008. This procedure provides assurance that purchases and sales of pro shop merchandise are recorded accurately.

Recommendation

We recommend that the City:

1. Prepare a formal, detailed financial policies and procedures manual for Green Hill's operations.
2. Either provide a specific cash register for each employee that works in the club house or, if possible, require employees to log in and out of the registers so that a record of transactions processed by each employee is maintained.
3. Change the building alarm codes, at a minimum, any time there is employee turnover.

4. Implement procedures to reconcile tournament receipts recorded in the POS system to a detailed listing of participants on the day of the tournament. In addition, the detailed listing of participants should be filed and maintained as a permanent record.
5. Deposit receipts in a timely manner (within 24-48 hours from collection).
6. Implement procedures to reconcile cash receipts recorded in the POS system to cash receipts recorded in the general ledger on a monthly basis.
7. Implement procedures to perform a physical inventory of the pro shop, at a minimum, semi-annually. The documentation related to the inventories should be signed by the person(s) that conducted the inventory and reviewed and signed by a supervisor. All documentation related to the physical inventories should be filed and maintained as a permanent record.

Management's Response

1. Work on a comprehensive financial and procedures manual continues and will be completed in this fiscal year.
2. A separate cash register for each club house employee is not practical. However, the Department of Public Works and Parks (DPW & P) will investigate the feasibility of employees logging in and out of the single cash register to record all transactions.
3. Alarm codes were modified in November after club house construction was finished. The auditor was given this information. Moreover security cameras were installed as part of the club house renovations as added security.
4. As with any golf tournament, reconciliation of attendees cannot be completed until the end of the day of the specific tournament. A count of players is made when the event tees off. To satisfy this recommendation, a copy of each invoice and associated roster will be attached to the tournament application along with the payment. These documents will be placed on file and stored for future audits.
5. The necessary steps have been taken to assure that all deposits are made timely. All personnel have been made aware of the importance of timely transmittals. The implementation of the POS system has virtually eliminated the timeliness issue. Deposits are now made daily. Document transmittals are completed and forwarded to Treasurers daily except on weekends and holidays.
6. All transmitted receipts for the Golf Course are reviewed and reconciled by DPW & P Accounting staff. Any incorrect deposits are addressed immediately. Procedures are in place relative to this financial process, transmittals including reviewing timeliness, accuracy, and postings.
7. During this summer season, the club house was undergoing renovations. As a result of these renovations, most of the business operations were being performed in a construction trailer. This situation was not conducive to appropriate inventory controls. A more stringent and proper inventory process will be initiated and all necessary documentation and verification will take place as recommended.

Police Department

Comment

During the prior year audit, we evaluated the systems of internal control related to the Police Department's (the Department) cash receipts and off-duty details and identified several control deficiencies. During fiscal year 2008, the City implemented controls to resolve most of these deficiencies. However, the following control deficiency remains unresolved:

- The City has not developed a formal policy regarding the calculation of an uncollectible allowance for the off-duty detail receivable.

Recommendation

We recommend that the City develop a formal policy regarding an uncollectible allowance for the off-duty detail receivable and perform the uncollectible allowance calculation annually for the City's audited financial statements.

Management's Response

The Treasurer/Collectors Office is the responsible City division for all aspects of billing and collection of off-duty details. The Treasurer/Collector's Office shall develop uncollectible allowance methodologies for off-duty receivables consistent with other bill types.

Code Enforcement

Comment

During the prior year audit, we evaluated the systems of internal control related to the Code Enforcement Department (the Department) and identified several control deficiencies. During fiscal year 2008, the City implemented controls to resolve some of these deficiencies. However, the following control deficiencies remain unresolved:

1. We identified instances in which there are no signatures indicating a supervisory review of deposit turnovers to the Treasurer/Collector's Office (T/C). Supervisory reviews of deposit turnovers reduce the potential for human error and asset misappropriation.
2. Several receipts tested were not turned over to the T/C in a timely manner (within 24- 48 hours after collection). Of the receipts tested that were not turned over timely, the lag time from collection to deposit ranged from 4 to 9 days. The lack of timely deposits does not adequately safeguard assets.

Recommendation

We recommend that the City:

1. Implement procedures that require the daily cash reconciliation and deposit documentation to be reviewed and approved by a supervisor and that both the preparer and the reviewer sign off all related documents prior to submitting the turnover to the T/C.
2. Prepare and submit turnovers to the T/C in a timely manner (within 24- 48 hours after collection).

Management's Response

The Code Enforcement (currently Inspectional Services) Division policies and procedures have always required signatures of the preparer as well as the review and approval of a supervisor. Prior to the reorganization of Inspectional Service into a separate department, instances of non-timely deposits were observed. As of July 1, 2008 all deposits are being made within 24 hours and include signatures of both the preparer as well as the respective supervisor who reviewed and approved the deposit.

Student Activity Fund Checking Account Reconciliations

Comment

We examined the June 30, 2008 bank account reconciliations for each of the City's student activity fund checking accounts and identified that seven (7) of the eleven bank account reconciliations did not have signatures indicating that supervisory personnel reviewed them. Proper internal controls require supervisory reviews of bank reconciliations to reduce the potential for errors, omissions and other irregularities that could occur and go uncorrected.

Recommendation

We recommend that the City implement procedures to require that all student activity fund bank reconciliations be reviewed and approved by supervisory personnel.

Management's Response

The Worcester Public Schools' (WPS) Business Office reviews all reconciliation reports submitted by individual schools. However, in addition, the WPS will ensure that building principals review and sign all reconciliation reports prior to submittal to the Business Office.

Central Garage

Comment

During the prior year audit, we evaluated the systems of internal control related to the Central Garage (Garage) and identified several control deficiencies. During fiscal year 2008, the City implemented controls to resolve most of these deficiencies. However, the following control deficiency remains unresolved:

- The Garage performed an annual physical inventory for fiscal year 2008. However, the preparer did not sign off certain sections of the inventory counts. Proper internal controls require the preparer of financial reports to sign off on the report in order to create an appropriate audit trail.

Recommendation

We recommend that the employee(s) that conduct the physical inventory counts sign off all sections of the counts. In addition, we recommend that a member of the Garage's supervisory personnel review and approve (sign off) the physical inventory count(s) for accuracy and completeness.

Management's Response

The noted deficiency was observed in approximately half of the inventory samples reviewed by the auditors. Though all physical inventories were performed and the inventory documents were reviewed by the supervisor, some were not signed by the actual preparers. This recommendation has been noted and steps have been taken to have all future inventory counts signed by the preparers. All required signing will take place as recommended.