

CITY OF WORCESTER, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013



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

In planning and performing Sullivan, Rogers & Company, LLC's (whose practice became part of CliftonLarsonAllen LLP effective January 1, 2014) audit of the financial statements of the City of Worcester, Massachusetts (City) as of and for the year ended June 30, 2013 (except for the Worcester Retirement System, which is as of and for the year ended December 31, 2012), 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, they considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing their opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, they do not express an opinion on the effectiveness of the City's internal control.

However, during their audit they became aware of matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Their comments and suggestions regarding those matters are summarized in the memorandum that accompanies this letter. This letter does not affect their report dated October 31, 2013, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. Sullivan, Rogers & Company, LLC had already discussed many of these comments and suggestions with various City 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 City's written responses to the matters identified in Sullivan, Rogers & Company, LLC's audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, they express no opinion on them.

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

CliftonLarsonAllen LLP

Boston, MA
March 26, 2014

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Comments and Recommendations

Building and Electrical Permits

Comment

We evaluated the systems of internal control related to building and electrical permits (permits) issued by the Inspectional Services department (department) and identified the following deficiencies:

- The department maintains a formal policy and procedure manual related to daily cash reconciliations for permits issued and paid for. However, we were not provided with any other formal policy and procedure manual(s) related to all other aspects of issuing permits (applications, approvals, fee collections and deposits, etc.). The lack of formalized written procedures creates the risk of inconsistencies in everyday policies and procedures. The use of written policies, procedures, and job descriptions in conjunction with specific assignment of responsibilities would increase supervisory personnel's effectiveness. Such written documents would decrease the time spent on supervision of clerical personnel and in attempts to define job responsibilities in the event of employee turnover.
- Some employees of the department have the ability to prepare and issue permits, collect permit fees and record permit fees. This represents an inadequate segregation of duties.
- The department utilizes an automated system (ViewPermit) to prepare and track permits. ViewPermit is designed to automatically assign permit numbers in sequential order. Our inquiry procedures identified that while the department performs periodic reviews to identify gaps in permit sequencing (and/or other irregularities), these reviews are not performed at regular intervals, nor are they formally documented. Performing the reviews at set intervals (e.g., weekly, monthly, etc.) and documenting the results would provide additional assurance over the issuance of permits.
- Our inquiry procedures identified that controls have been established in ViewPermit to allow only certain employees to edit and/or void transactions in the system. In addition, reports can be generated from ViewPermit that show all activities performed in the system, by username. Our inquiry procedures identified that while the department performs periodic reviews of the activity reports to potentially identify inappropriate and/or unauthorized transactions, these reviews are not performed at regular intervals, nor are they formally documented. Performing the reviews at set intervals (e.g., weekly, monthly, etc.) and documenting the results would provide additional assurance over the issuance of permits.
- Daily cash reconciliations were not consistently performed during fiscal year 2013. This is a weakness in internal controls over cash receipts. In addition, as a result of daily cash reconciliations not being performed consistently, we identified several instances of permits recorded in ViewPermit with "zero" as the fee, yet fees for the permits were collected, deposited and recorded in the City's general ledger. The ViewPermit system should be recording all fee collections and should reconcile to the general ledger to provide additional assurance over cash receipts and recording revenue.
- The department accepts cash payments for permits. Cash payments have increased risks of asset misappropriation.

Recommendation

We recommend the City:

- Implement formal policies and procedures related to all aspects of issuing permits
- Segregate the duties of issuing permits, collecting fees and recording fees
- Perform and document reviews of permit sequencing at regular intervals (e.g., weekly, monthly, etc.). The reviews should be performed by an employee of the department that is not responsible for issuing and entering permits in ViewPermit.
- Perform and document reviews of detailed activity/transaction reports from ViewPermit at regular intervals (e.g., weekly, monthly, etc.). The reviews should be performed by an employee of the department that is not responsible for issuing and entering permits in ViewPermit.
- Perform daily cash reconciliations at the end of every business day
- Evaluate the cost/benefit of discontinuing acceptance of cash payments for permits

Management's Response

The Department of Inspectional Services ("the department") has converted over to a new permitting software system which shall eventually be utilized by all City permitting departments. Through this conversion the department has identified system modifications and internal procedural modifications required to efficiently implement the software not only in the department but also in other City departments/divisions.

With the above referenced modifications almost complete, the department shall modify its existing policies and procedures to address all concerns observed by the independent auditors (segregation of duties, daily cash reconciliations and periodic reviews of transactions). This manual, estimated to be completed in March 2014, shall be the basis of departmental procedure manuals for further departmental implementations.

Additionally, through this implementation the department has decided to offer the acceptance of credit cards as a means of payment for permit and other fees.

Parking Ticket Accounts Receivable

Comment

We evaluated the systems of internal control related to parking ticket accounts receivable and identified the following deficiencies:

- The City contracts with a third-party service provider, Kelley & Ryan Associates, Inc. (K&R), to maintain its parking ticket accounts receivable. Since K&R's duties involve the processing of financial transactions, the transactions are affected by the City's internal controls and the controls employed by K&R. Therefore, as part of its monitoring efforts to ensure that internal controls over financial reporting are effective and functioning as intended, City management must evaluate whether K&R's internal controls are suitably designed and effective.

The most effective and efficient way for the City to accomplish its monitoring efforts is to obtain the appropriate *Service Organization Control (SOC)* report(s) from K&R. The City's contract with K&R does not require K&R to obtain and submit a SOC report(s) to the City, therefore the City has not received a SOC report(s) from K&R.

- The City uses reports from K&R to record general ledger journal entries for transactions such as commitments and abatements. We identified the following deficiencies related to the timeliness of journal entries recorded to the general ledger in fiscal year 2013:
 - July, August, September and October 2012 commitments and abatements were not recorded until mid-December 2012
 - A correction to the June 2013 commitment was not recorded until late August 2013
 - A large majority of fiscal year 2013 journal entries (24 of 36) were posted in June 2013. Per inquiry procedures and examination of monthly accounts receivable reconciliations, we identified that most of the June 2013 journal entries related to transactions (or other matters) that occurred in earlier months of the fiscal year.
- Monthly accounts receivable reconciliations were not signed and dated by the preparer or reviewer. The lack of signed reconciliations creates an inadequate audit trail. In addition, the lack of a reviewer signature does not provide evidence that the reconciliations were reviewed for appropriateness. The lack of dated reconciliations prevents verification of their timeliness.
- During fiscal year 2013, the City recorded parking ticket accounts receivable write-offs totaling approximately \$985,000. However, the City does not have formal policies that specify the criteria for writing-off parking ticket accounts receivable.

Recommendation

We recommend the City:

- Include in its next contract with K&R (or any other service organization involved in maintaining parking ticket accounts receivable) a requirement to obtain the appropriate SOC report annually
- Record general ledger journal entries for parking ticket transactions no later than one (1) month after the transaction(s) occurred
- Require monthly accounts receivable reconciliations be signed and dated (electronically or manually) by the preparer and reviewer
- Develop and implement policies for writing-off parking ticket accounts receivable

Management's Response

The City Treasurer and Collector's Office ("the office") had previously implemented a monthly receivable reconciliation schedule for all receivable types, unfortunately for fiscal year 2013 , the office did not adhere to said schedule. The office has reinstituted and reinforced the parking ticket accounts receivable monthly reconciliations to include supervisor signoffs and adjusting journal entries (if applicable) within 45 days of the close of a given month.

With regards to Service Organization Control (SOC) reports, as mentioned in the fiscal year 2012 management letter, the City shall include the submission of a SOC on any solicitation/award of service contracts involving the handling of City assets. The existing contract for third party servicing was bid and awarded prior to the City's SOC requirements.

Finally, the development of policies for parking ticket allowances and write-offs have been incorporated into the unified City allowance and write-off policy.

DCU Center

Comment

The DCU Center (Center) is owned by the City and managed by a venue management company (SMG). Our firm performed a separate audit of the financial activities of the Center as maintained by SMG for the fiscal year ended June 30, 2013.

Our audit of the Center identified the following (as reported in the Center's *Management Letter*):

Surplus Distributions to the City

The management agreement between the City and SMG requires SMG, on a quarterly basis, to distribute surplus to the City. The management agreement defines surplus as the amount by which operating revenue for the prior quarter exceeded operating expenses for the prior quarter, less the projected cash flow shortfall for the subsequent quarter.

We identified that quarterly surplus distributions were not made throughout fiscal year 2012. Subsequent to June 30, 2012, SMG distributed the total fiscal year 2012 surplus (\$666,730) to the City.

During fiscal year 2013, the City requested a quarterly distribution from SMG for the quarter ending March 31, 2013. However, the distribution was not made. Furthermore, the total fiscal year 2013 surplus (\$335,480) was not distributed to the City until September 2013.

Recommendation

We recommend the City work with SMG to have surplus distributed to the City in accordance with the management agreement.

Management's Response

The Administration and Finance Division has implemented procedures to determine if the quarterly surplus distributions are in order consistent with the contract with SMG for the management of the DCU Center.

Off-Street Parking

Comment

As reported in the prior year Management Letter, we identified that information related to accounts receivable for parking garage services are not forwarded by the DPW to the City Auditor's office for entry in the general ledger. As a result, accounts receivable are understated in the general ledger. While the parking accounts receivable balances at June 30, 2013 were immaterial to the City's financial statements, the City is at risk of misstating its financial statements when these amounts are not recorded on the general ledger.

Recommendation

We recommend the City implement policies and procedures to forward parking garage accounts receivable balances, and related supporting documentation, to the City Auditor's office monthly to record amounts in the general ledger for financial reporting

Management's Response

The City has undertaken a review of the long term means in which the governance and operations of its parking assets occur and has presented to the City Council a recommendation. In such, is a recommendation to transition the accounting of parking operations from a reserve receipt method to an enterprise fund model at which time parking receivable would be accounted for in the City's financial statements.

Record Retention

Comment

As reported in the prior year Management Letter, we identified the City does not have formal, City-wide records retention policies and procedures. Instead, each department is responsible for its own records retention practices. For example, the City Auditor's department adheres to the records retention policies and procedures outlined by the Office of the Secretary of the Commonwealth.

Formal, centralized records retention policies and procedures that encompass all City departments would provide the following benefits:

- Legal and tax protection
- Convenience and assistance in records retrieval
- Maximized use of limited storage space

Recommendation

We recommend the City develop, adopt and implement formal, centralized records retention policies and procedures that encompass all City departments. The following considerations should be investigated:

- Federal and state legal retention requirements for each type of record and document
- Internal retention requirements of certain records and documents not covered by legal dictate (such as contract records)
- Availability of storage facilities (electronic/ scanned records require less space than original paper source documents)
- Cost of scanning records versus the cost of storing the original document
- Frequency in referral to documents (electronic/ scanned document indexing and access may be less time consuming than retrieval of paper source documents)
- Indexing documents for destruction after the expiration of the retention period

Management's Response

The administration shall review with each respective department/division, the guidelines promulgated by the Commonwealth's Secretary of State to formulate record retention protocols specific to the respective department/division.