

CITY OF SOMERVILLE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2021





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

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Massachusetts, as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, 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.

However, during our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel and 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.

This communication is intended solely for the information and use of management of the City of Somerville, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan, LLC

February 7, 2022

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PRIOR YEAR COMMENTS

Compensated Absence Documentation

Prior Year Comment

In previous management letters we noted, the City operates a decentralized payroll time tracking system. Department heads maintain the accounting for their employees' use of sick and vacation time. At year end, this information is sent to the payroll department for review of employee pay rates and is subsequently submitted to the City Auditor's Office for compilation of the liability in accordance with the various union contracts.

The present system does not minimize the risk that time earned and taken will be recorded properly. Currently, there is no defined policy of when and how an employee reviews their bank of sick and vacation time to verify the integrity of this information. Employees' paystubs report if any sick or vacation time has been used in the current period but does not reflect an employees' available bank of sick and vacation time available.

Recommendation

We recommended that management develop a policy regarding the use and tracking of sick and vacation time. Also, the use of a time and attendance system that would integrate with the MUNIS payroll system could be an efficient and effective way to account for and track sick and vacation time accruals.

Current Status

The City has obtained an automated compensated absence tracking system. There have been personnel changes within the HR Department which oversees the payroll process. The new personnel are in the process of reviewing the entire payroll process including the accumulation of compensated absence data and hopes to implement the use of the automated tracking system in fiscal year 2023.

Purchase Orders Dates

Prior Year Comment

In previous management letters we noted, during expenditure testing we noted that a number of purchase orders were dated past their corresponding invoice dates. Creating purchase orders after the invoice is received bypasses the City's purchasing policies and defeats the control that a purchase order system is intended to provide. Purchase orders play a primary role as they allow the City to ensure that budgetary funds are available and that the purchase has been properly approved before funds are expended.

Recommendation

We recommended the City Auditor's Office work with the Departments found to be in violation of City policy regarding the use of purchase orders.

Current Status

During expenditure testing in 2021, we noted that there are still purchase orders being found whose dates were after the invoice date. Management is developing a plan to train the various departmental offenders of this policy and work to design a procedure that would allow for early identification of situations in which this is still occurring.

Capital Assets

Prior Year Comment

In previous management letters we noted, to comply with the reporting requirements of GASB Statement #34, the City compiled a historical cost listing of all assets owned by the various departments of the City. Maintaining this list requires the City to account for additions, deletions, disposals and transfers of fixed assets. Since the initial fixed asset inventory, the City has not implemented definitive procedures to account for all capital assets additions, deletions, disposals or transfers. In order to continue to meet reporting requirements, the City will need to maintain a fixed asset sub-system to track all additions, disposals and depreciation of capital assets on an ongoing basis.

The information received in previous years required multiple updates to accurately reflect all capital asset activity.

Recommendation

We recommended management implement procedures that would allow for the identification of capital assets at the time of purchase. A policy needs to be developed to assist in the compilation of additions, disposals, and depreciation in a timely and accurate manner for financial reporting purposes.

Current Status

The City is working to develop updated policies and procedures surrounding the accumulation of capital asset data and the implementation of updated capital asset tracking software. The City intends to meet with the Departments that incur the majority of capital asset activity more frequently to assure capital asset information is accumulated in a timely manner and properly accounted for.

Water and Sewer Stabilization Fund

Prior Year Comment

The City maintains a water and sewer stabilization fund which accounts for amounts put aside for the needs of both the City's water and sewer activities. In the current year, the City did not properly allocate the split of investment earnings to the sewer fund. This resulted in the sewer not being allocated \$112,067 of investment earnings. For financial statement purposes, the interest has been properly allocated and the stabilization fund balance has been allocated to both the water and sewer enterprise funds. The need to make these allocations opens up areas in which errors may occur and management may make incorrect financial decisions if the balances are not allocated correctly.

Recommendation

We recommended that the City set up separate water and sewer stabilization funds, this will make it more efficient to ensure that the investment income is being allocated to the water and sewer funds accurately. It will also aid in the preparation of the City's financial statements. Currently, a journal entry is recorded to allocate the water and sewer stabilization fund balance to the applicable enterprise fund for preparation of the City's financial statements.

Current Status

After year-end, the City established separate water and sewer stabilization funds.

Payroll Overpayments to Employees

Prior Year Comment

During our audit we noted errors in the payroll process that has caused employees to be paid for time not actually worked. Each Department is responsible for submitting payroll information to be used in generating the current payroll warrant. There is currently no centralized system for validating the information submitted by each Department.

It appears that various errors in validating the payroll information are occurring at the Department level prior to the information being forwarded to the Payroll Department for processing. At times it looks as if prior week schedules of hours worked have been rolled to be used for the current period without a process to confirm the hours worked are correct.

This leads to a situation in which the City could be paying more in payroll and payroll taxes than is necessary and ultimately must expend resources to track the impacted employees down and work to recover any overpayments.

Recommendation

We recommended that the City work to implement a centralize payroll process and implement procedures that would allow for the proper validation of information submitted by the Payroll Department prior to running of the payroll warrant.

Current Status

There have been personnel changes within the HR Department which oversees the payroll process. The new personnel are in the process of reviewing the entire payroll process working to make systemic changes to the entire payroll system which will be designed to assist the City in validating payrolls before processing takes place.

CURRENT YEAR COMMENT

Benefits Withholdings

Current Year Comment

During a review of the City's withholding accounts, we noted several balances within the benefits withholding accounts that did not change from the prior year. While immaterial to the overall financial position of the City, having no activity in these accounts indicates that the City is not utilizing these accounts properly and the balances within these accounts are not correctly stated. If liability accounts are deemed to be invalid, the closing out of these accounts would increase the free cash of the City.

Recommendation

There have been personnel changes within the HR Department which oversees the payroll and withholding reconciliation process. The new personnel are reviewing the entire payroll process working to make systemic changes to the entire payroll system which will be designed to assist the City in reconciling the amounts being withheld from employees each payroll to the general ledger liability accounts to assure the correct amounts are being withheld.

