

CITY OF SOMERVILLE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2017



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To the Honorable Mayor and Board of Aldermen
City of Somerville, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, (the City), as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Somerville, Massachusetts' internal control over financial reporting as a basis for designing our auditing procedures that are appropriate in the circumstances 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, during our audit we became aware of matters that are 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, and is not intended to be, and should not be, used by anyone other than these specified parties.

Powers + Sullivan, LLC

December 20, 2017

CITY OF SOMERVILLE, MASSACHUSETTS

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JUNE 30, 2017

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PRIOR YEAR COMMENTS

Outstanding Parking Ticket Receivables

Prior Year Comment

In previous management letters we noted, the City has been accounting for parking tickets issued on a cash basis, recording the revenue as tickets are paid. An accounts receivable is not recorded on the City's general ledger for the total outstanding tickets. They utilize an outside vendor to assist in the collection and tracking of outstanding parking tickets. We noted that the balance as of June 30, 2017, has increased to over \$13.9 million. In reviewing the detail we observed that \$10.9 million of the balance is older than 3 years.

For financial statement purposes the City records the receivable and an allowance for doubtful accounts related to an aging schedule of outstanding parking tickets. However, parking tickets should have been flagged at the registry of motor vehicles requiring the offender to pay the outstanding ticket prior to being able to renew their license. Therefore, it seems unlikely that there is in fact such a large balance of old year's outstanding.

Current Status

The City continues to work towards developing a policy that addresses writing off accounts that are deemed uncollectible. In 2017, the City used a new vendor to oversee this process and was able to run aging reports to breakout current and long outstanding balances. We continue to recommend that the City work on developing a policy that addresses accounts that are deemed uncollectible.

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. At this time, 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 recommend 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 a software package and attempted to implement an automated compensated absence system. The City was unable to use the software tracking for 2017 due to unintended software issues and had to manually track the sick and vacation accruals for 2017. The City plans on having the tracking software fully implemented by June 30, 2018.

Agency Account Reconciliations and Supporting Documentation

Prior Year Comment

In previous management letters we noted, the City could not support the balance in their custodial detail agency account.

Recommendation

We recommend that the City implement a policy for all Departments to follow in relation to reconciling the various agency fund accounts on the general ledger. The reconciliations should include adequate supporting documentation to substantiate the balances owed at year end.

Current Status

The various City Departments were able to provide substantiation for the balance of custodial details and several other agency accounts in 2017.

Old Outstanding Checks

Prior Year Comment

As part of our review of cash reconciliations, we noted that the bank reconciliation for the vendor and payroll accounts, for both the City and the Retirement System, report outstanding checks greater than three months old as reconciling items. In most instances, checks not cashed timely after the issue date indicates that the checks were either reissued, lost or are being held. As part of internal controls over cash disbursements and expenditures, the aging of outstanding checks should be monitored to ensure they are true outstanding checks.

Recommendation

We continue to recommend the Treasurer's Office investigate the existing outstanding checks greater than three months old and take appropriate action to remove such checks from the outstanding check listings and place into tailings. We also recommend that procedures be implemented to investigate such outstanding checks on a monthly basis.

Current Status

The Treasurer's Office has made significant progress in cleaning up outstanding checks greater than three months old.

Documentation of Internal Controls

Current Year Comment

In December 2013, the U.S. Office of Management and Budget (OMB) issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) in an effort to (1) streamline guidance for federal awards while easing the administrative burden and (2) to strengthen oversight over the expenditure of federal funds and to reduce the risks of waste, fraud and abuse.

The Uniform Guidance supersedes and streamlines requirements from eight different federal grant circulars (including OMB Circular A-133) into one set of guidance. Local governments are required to implement the new administrative requirements and cost principles for all new federal awards and to additional funding to existing awards made after December 26, 2014 (fiscal year 2016).

In conformance with Uniform Guidance, the non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States (the Green Book) and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The COSO internal control framework is generally accepted as a best practice within the industry including the best practices prescribed by the Government Finance Officers Association (GFOA). COSO is a joint initiative of 5 private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence. The original COSO framework was published in 1992 and has been revised several times for changes in operations, technology, and audit risk. The most recent updates to the COSO Internal Control - Integrated Framework were issued in 2013 and are available at www.coso.org.

Management is responsible for internal control and to see that the entity is doing what needs to be done to meet its objectives. Governments have limited resources and constraints on how much can be spent on designing, implementing, and conducting systems of internal control. The COSO Framework can help management consider alternative approaches and decide what action it needs to take to meet its objectives. Depending on circumstances, these approaches and decisions can contribute to efficiencies in the design, implementation, and conduct of internal control. With the COSO Framework, management can more successfully diagnose issues and assert effectiveness regarding their internal controls and, for external financial reporting, help avoid material weaknesses or significant deficiencies.

The COSO internal control framework incorporates 5 major components of internal control, which are supported by 17 principles of internal control as follows:

1. CONTROL ENVIRONMENT

- 1) Demonstrates commitment to integrity and ethical values
- 2) Exercises oversight responsibility
- 3) Establishes structure, authority, and responsibility
- 4) Demonstrates commitment to competence

- 5) Enforces accountability
2. RISK ASSESSMENT
 - 6) Specifies suitable objectives
 - 7) Identifies and analyzes risk
 - 8) Assesses fraud risk
 - 9) Identifies and analyzes significant change
3. CONTROL ACTIVITIES
 - 10) Selects and develops control activities
 - 11) Selects and develops general controls over technology
 - 12) Deploys through policies and procedures
4. INFORMATION & COMMUNICATION
 - 13) Uses relevant information
 - 14) Communicates internally
 - 15) Communicates externally
5. MONITORING
 - 16) Conducts ongoing and/or separate evaluations
 - 17) Evaluates and communicates deficiencies

Management should evaluate and assess the government's internal control system to determine whether: each of the five essential elements of a comprehensive framework of internal control is present throughout the organization; whether each element addresses all of the associated principles; and whether all five elements effectively function together.

Recommendation

We recommend management follow the best practice for establishing and documenting their internal control system using the COSO Internal Control Framework.

Current Status

The City has not developed a COSO internal control document.

CURRENT YEAR COMMENTS

Purchase Orders Dates

Current Year Comment

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 implement a process to ensure that purchase orders are initiated prior to the procurement of goods and services.

Rescind Long Outstanding Authorized and Unissued Debt

Current Year Comment

During the audit of the City's outstanding long term-debt it was determined that the City had a balance of \$372.5 million worth of previous debt authorizations. Some of these items are dated as far back as 2008.

Recommendation

We recommend that the City review the listing of Authorized and Unissued debt and rescind any authorizations related to completed projects or projects that are no longer going to be completed.

Government Accounting Standards Board (GASB) Statements for OPEB

Current Year Comment

The GASB has issued a new pronouncement that will significantly affect the accounting and reporting requirements for Other Postemployment Benefits (OPEB). This new standard will be implemented in 2018 and will substantially impact the City's financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

The new standard that has been issued and their effective dates are as follows:

- The GASB issued Statement #75, Accounting and Financial Postemployment Benefits Other Than Pensions, which is required to be implemented in 2018.

See below for a brief summary of this new standard:

- GASB #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in other postemployment benefit liability will be immediately recognized as other postemployment benefit expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Employers will report in their financial statements a net other postemployment benefit liability (asset) determined annually as of the measurement date. Net other postemployment benefit liability (asset) equals the total other postemployment benefit liability for the plan net of the plan net position. The other postemployment benefit liability is the actuarial present value of projected benefits attributed to past service. The plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The City should expect to record significant OPEB liabilities in 2018. While these GASB's do not go into effect until 2018, we wanted to make the City aware of the impact that this new standard will have on financial statement reporting and disclosures.