

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**MANAGEMENT LETTER**  
**YEAR ENDED JUNE 30, 2019**



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Management  
Town of Swampscott, Massachusetts

In planning and performing our audit of the financial statements of the Town of Swampscott, Massachusetts (Town) as of and for the year ended June 30, 2019, 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. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated February 7, 2020, 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  
February 7, 2020

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MANAGEMENT LETTER  
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## **Comments and Recommendations**

### **Cash and Bank Reconciliations**

#### Comment

The June 30, 2019, reconciliation of cash between the Treasurer and general ledger identifies approximately \$20,000 (net) of reconciling items that are over one (1) year old. Proper internal controls require the timely resolution of reconciling items.

We identified the vendor bank reconciliation prepared by the Treasurer includes outstanding checks greater than three (3) months old totaling approximately \$33,000 that date back to 2014. Typically, checks greater than three (3) months old reflect checks that have been void, lost, misplaced or stolen. There are currently no procedures in place to investigate and resolve the status of these checks.

In addition, the Treasurer appropriately maintains trust fund activities (e.g., OPEB) in separate bank and investment accounts. We identified that procedures are not in place to reconcile trust fund bank and investment account balances to the general ledger, which is a weakness in internal control. Furthermore, investment income between the trust funds and the general fund can be over/under allocated if cash is not being transferred when transactions (e.g., disbursements) occur.

#### Recommendation

We recommend procedures be implemented to investigate and resolve reconciling items no later than 30 days after month-end.

We recommend monthly procedures be implemented to investigate and resolve outstanding checks greater than three (3) months old. Implementation of this recommendation will strengthen internal controls over cash disbursements and financial reporting.

We recommend procedures be implemented to reconcile trust fund bank and investment balances to the general ledger monthly.

#### Management's Response

The reconciling items as of June 30th, 2019 totaled \$14,253.87, which comprised approximately 69 transactions dating back to June 30, 2017 ranging from \$0.01 to the largest item of \$16,538.62. The average reconciling item amount is \$206.58. Typically these reconciling items are a matter of timing, where a transaction hits the bank in one month and the general ledger in Munis on the following month; and other than documenting them, requires no further action since they self-reconcile on the following month's reconciliation. In some cases, however, the transaction requires further attention.

The largest item, which is listed as \$16,538.62, is a compilation of several items that occurred in June 2018 during payroll processing. The payroll vendors for one of the payroll batches was inadvertently double posted. This error was caught immediately, but after the payroll batch posted to the general ledger. The actual payments to the payroll vendors, which would have been double payments, were not made; but a journal entry to the general ledger to correct the erroneous posting was never made. In essence, regarding these payments, we are still holding the money in the bank, but the general ledger erroneously recognizes these amounts as expended. The proper correction would be a journal entry to correct the double-posting.

This explanation provides a typical example of the nature of these issues, although usually the dollar amount is much smaller. Issues can arise where transactions are handled differently at the bank vs. the general ledger. Management will ensure the outstanding cash reconciling items are documented properly and the appropriate actions are taken to rectify them. Stricter reconciliation standards have been put in place that will minimize the risk that outstanding reconciling items carry for longer than one (1) period.

Regarding the outstanding checks, there is a procedure available under state law, specifically G.L. c. 200A §9A that would allow the town to efficiently handle these older uncashed vendor checks. This statute is a local acceptance statute that requires town meeting acceptance before we can utilize it. It is management's plan to request that this statute be accepted at town meeting to permit this issue to be resolved.

It was correct that a procedure to reconcile trust fund bank/investment accounts to the general ledger was never in place. However, a procedure was put in place recently that provides a monthly comparison to ensure that any receipts or expenditures affecting trust funds are properly handled at the bank.

## 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 business objectives and identified the following:

1. An IT general controls review, external penetration test, or internal vulnerability assessment has never been performed by an independent third party.
2. There are no formal IT policies in place that govern the IT department.
3. The password policies in place do not currently meet best practice.
4. There is no formal user access review performed for the Town's network and applications.
5. Data backups are not periodically tested for recoverability and readability.

### Recommendation

1. We recommend that an external penetration test and an internal vulnerability assessment be performed by an independent third party to identify potential areas of technical weaknesses to the IT environment. In addition, the Town should have a full scope IT general controls review performed to evaluate the effectiveness of the internal control structure of the IT environment.
2. We recommend that 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 and 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 the appropriate employees.

3. We recommend the implementation of stronger and more complex password parameters. Password settings should be to the following:
  - a. Password length of eight characters
  - b. Complexity enforced (Upper case, lower case, alpha numeric, special character)
  - c. Change frequency of 90 days enforced
  - d. Password history of 12-24
  - e. Minimum password age of one day
  - f. Invalid login attempts set to five
  - g. Users be required to change their passwords based on the above parameters and the IT Director only be able to provide temporary reset passwords



## **Information Technology (Continued)**

4. We recommend implementing a formal documented user access review process to determine whether terminated users access has been removed from the network and applications, and whether active user access is appropriate based on their job responsibilities. Maintaining documentation of this scheduled procedure will ensure the process is maintained in the event of employee turnover.
5. We recommend that all backup media be tested on a semi-annual basis for recoverability and readability. Documentation of the testing should be retained by the IT department.

## Management's Response

1. This is a repeat of a management comment from prior years' audits. We are working with our IT Consultant and our insurance carrier to provide for external penetration testing and internal vulnerability assessment. There are cost implications associated with this recommendation that prevented this from taking place, but it is management's intent to provide for this soon.
2. This is also a repeated comment from prior years. The Town has a near complete draft of Comprehensive Financial Policies that are intended to address both this comment, as well as comments below on the Procurement Policy and Financial Policies. It is expected that the complete policy manual will be adopted within the next several months.
3. We are working with our IT Consultant to provide for more robust requirements on password parameters that we expect to implement within the next several months.
4. The Town's IT Consultant and the Human Resources Department are immediately implementing protocols to ensure that former employees' access to the town's email and Munis is deactivated once employees leave the Town's workforce.
5. Full data backups are being completed overnight and saved into the cloud at an offsite facility by the Town's outside consulting firm.

## **Credit Card Purchases**

### Comment

The Town's written credit card policy requires that a signed "administrative regulation agreement to accept Town credit card" be maintained. We identified this agreement is not being maintained by the Town for the two individuals who possess Town credit cards. In addition, our sample of credit card transactions identified one instance that lacked documentation or an explanation of the expense.

### Recommendation

We recommend that the Town execute and maintain a signed "administrative regulation agreement to accept Town credit card" as required by the Town's credit card policy. In addition, we recommend that all credit card purchases require proper documentation and the transaction and documentation be reviewed and approved.

### Management's Response

As a general practice, a monthly reconciliation of the credit card statement is performed by the finance department and documentation for each charge is verified. Any variances or missing documentation are investigated in a timely manner to the extent possible.

Management has drafted a revised credit card agreement that will be in place for FY20. All credit card users will be required to sign the agreement, and all use of the Town's credit cards by the users will be subject to the guidelines defined within the terms of the agreement.

The signed agreements will be maintained by the Town Accountant.

## **Accrued Sick and Vacation Liability**

### Comment

The Town does not utilize the Munis payroll module to maintain its accrued balances of sick and vacation pay. Currently these balances are tracked manually, by Department, and estimated at the end of each fiscal year for external financial reporting purposes. The current method is inefficient and more susceptible to human error. Use of the payroll module would strengthen internal control and provide efficiencies in the financial reporting process.

### Recommendation

We recommend the MUNIS payroll module be utilized to maintain all employees' accrued sick and vacation balances

### Management's Response

Management will be implementing a timekeeping software, "Novatime" in the near future which will automatically maintain and update employees' sick and vacation accrual balances each pay period. Implementation of the automated timekeeping software will greatly reduce the risk of error when accounting for these accrued liabilities. The software will integrate with the existing MUNIS payroll module.

## **Procurement Policy**

### Comment

Title 2 of the Code of Federal Regulations states that the nonfederal entities receiving federal funds must have written procedures for procurement transactions. §200.318 states that the nonfederal entity must use its own documented procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards. §200.318 describes the methods of procurement to be followed:

- a) Procurement by Micro-purchases. Aggregate dollar amount of which does not exceed \$3,500. To the extent practicable, the nonfederal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the nonfederal entity considers the price to be reasonable.
- b) Procurement by small purchases. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold (currently \$150,000). If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.
- c) Procurement by sealed bids and competitive proposals. Bids are publicly solicited and awarded for amounts in excess of Simplified Acquisition Threshold (currently \$150,000).
- d) Procurement by noncompetitive proposals (Sole Source). Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source when this source meets all the circumstances in §200.320 paragraph (f)(1-4).

Consistent with prior years, the Town's procurement policy does not address the criteria outlined by Title 2 of the Code of Federal Regulations §200.320.

### Recommendation

We recommend the Town update its procurement policy to include the requirements of Title 2 of the Code of Federal Regulations §200.320.

### Management's Response

It is Management's immediate intention to draft necessary revisions to our existing procurement policy to conform with the standards prescribed in Title 2 §200.318, and implement the revised policy in the near future. Management regularly reviews its procurement policies and procedures for compliance with federal, state and local regulation.

## **Accounts Receivable – Parking Tickets and Police Detail**

### Comment

Consistent with prior years, procedures have not been developed and implemented to record (on the general ledger) the monthly amounts billed as accounts receivable (and the corresponding deferred revenue) related to parking tickets and police detail. As a result, monthly reconciliations of outstanding accounts receivable cannot be performed. Proper internal controls require all transactions related to accounts receivable to be accounted for and recorded on the general ledger.

In addition, an accounts receivable aging report is not maintained for the police detail receivables.

### Recommendation

We recommend procedures be implemented where all billings for parking tickets and police detail be provided to the accounting office to enable the recording of the applicable accounts receivable on the general ledger. We recommend that all subsequent transactions related to the billings (cash receipts, write-offs and other adjustments) also be recorded (in summary) by the accounting office on the general ledger. The general ledger should serve as a control account for the parking tickets and police detail accounts receivable balances.

We also recommend the maintenance of a police detail aging report.

### Management's Response

Management has taken steps to implement the general billing module in MUNIS, which will enable us to track accounts receivable related to police details. The finance department will train a new admin at the police station to use MUNIS to process police detail bills in the near future, which will allow all detail receivables to be accounted for on the G/L and tracked for collection purposes.

Management currently uses a private contractor to perform parking ticket billing and collections. It is not currently feasible for us to move these processes in house, however we are actively exploring other options that would allow us to track parking ticket receivables, such as utilizing reporting from our contractor and the police department or implementing the MUNIS parking ticket module.

## **Risk Assessment and Monitoring**

### Comment

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 management 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 management 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

Management has included in their draft financial policies a section on risk management and assessment. As part of management's on-going fiscal responsibilities, the team is consistently monitoring and identifying where risks might be present and developing action plans where appropriate. The management team includes two individuals with backgrounds in risk/audit and as potential risks are identified, the HR Director or the Town Accountant, investigate the potential risks and provide corrective action plans as need be. Management continues to be dedicated and focused on continuing to make enhancements, adjustment and changes. We will continue to develop our risk assessment model and mitigate risks wherever possible.

## Financial Policies and Procedures Manual

### Comment

The Town has drafted formal policies and procedures that address the following financial activities:

- General ledger maintenance
- Year-end closing
- Processing invoices
- Vendor cash disbursements
- Voided and reissued checks
- Enterprise risk management
- Employee expense reimbursement
- Credit cards

The drafted policies also define the objectives, responsibilities and authorizations for employees/job positions in the accounting department. However, the policies and procedures drafted by the Town do not define the objectives, responsibilities and authorizations for **all** employees/job positions, and they do not address the following financial activities:

- Cash receipts
- Purchase orders
- Payroll cash disbursements
- Administration of grants
- Administration of student activity funds
- Personnel (i.e., hiring, payroll and related changes, etc.)
- Month-end closing procedures

We believe that formal policies and procedures addressing the financial activities identified above would improve and standardize the Town's financial policies and procedures. Inherent in any organization that operates without formalized written procedures are inconsistencies in everyday policies and procedures. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them.

### Recommendation

We recommend management formally adopt the drafted policies and procedures identified above.

We recommend management continue to develop its formal financial policies and procedures to address the financial activities identified above.

### Management's Response

Management recognizes the importance and value of a strong financial policy. Currently, draft financial policies have been prepared by management, and are being reviewed and refined by the Select Board. We look forward to finalizing and ratifying our financial policies for FY20. As part of on-going fiscal policy, Management regularly produces various quarterly financial reports and analyses for the Select Board and Finance Committee to review.



## **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 2020. However, due to the COVID-19 pandemic, the Governmental Accounting Standards Board (GASB) is considering postponement of the implementation date. A final decision from the GASB is expected in May 2020.

### Recommendation

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

## **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 2021. However, due to the COVID-19 pandemic, the Governmental Accounting Standards Board (GASB) is considering postponement of the implementation date. A final decision from the GASB is expected in May 2020.

### Recommendation

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

