

TOWN OF BURLINGTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2018



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To the Honorable Board of Selectmen
Town of Burlington, 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 Town of Burlington, Massachusetts as of and for the fiscal year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, 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 several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding 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 Town 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.

The Town's written response to the matters identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Powers & Sullivan, LLC". The signature is written in a cursive, flowing style.

December 21, 2018

TOWN OF BURLINGTON, MASSACHUSETTS

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JUNE 30, 2018

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MATERIAL WEAKNESS

SCHOOL DEPARTMENT BUDGETARY CONTROL

Overview/Finding

The fiscal year 2018 School budget was completed in a format designed by the Director of Finance and Operations who retired at the end of fiscal year 2017 after 21 years of service. For fiscal years 2017 and prior, the Schools were able to end each year with a bottom-line balanced budget. We noted that focus was on the bottom-line of both the Operating and Accommodated budget while individual line items may have been overspent. Since the prior budgetary process did not maintain the integrity of each individual line-item it increased the possibility that surpluses in some appropriations would not be sufficient to cover the deficits in others and without proper and constant monitoring and budget projections could result in a bottom-line appropriations deficit.

A new finance team was hired at the start of fiscal year 2018 and a decision was made to continue with the old budget model and develop a new model for fiscal year 2019 that would shift the monitoring and budget projections to the appropriate cost centers and line-items.

As with all annual budgets, the first six months of the year does not always indicate that there may be a possible over expenditure of budgets for the fiscal year. Accurate monthly financial reports along with an estimate of projected expenditures for the remainder of the fiscal year is a standard sound business practice that should have been in place for each month of the year. It was not in place throughout the year. We found that in the second half of the fiscal year, the finance team was focused on implementing the new line-item budgets and not enough time was allocated to analyzing the current budget to actual results.

The implementation of the new budget process required the completion of the fiscal year 2019 comprehensive budget document in April 2018 for Town Meeting. This also required the new finance team to build a new chart of accounts and enter all the new accounts into the appropriation ledgers by July 1, 2018, the start of the new fiscal year. This was a time consuming task and may have contributed to the lack of monitoring the fiscal year 2018 budget to actual activity.

We found that no significant monthly monitoring and or budget projections through the end of fiscal 2018 were completed until after June 30th which was too late to mitigate the magnitude of the deficit. Even if projections were being monitored timely, the monitoring process may not have uncovered the deficit due to the lack of control procedures that required all expenditures and purchase orders to be reported and entered into the ledgers as incurred. At year-end, the finance team realized that a significant portion of purchases were being approved only by department heads during the year with unapproved manual purchase orders not being entered into the system. These fiscal 2018 invoices were sent to the School Business office, after year-end, with printed purchase orders attached. Because these purchase orders were printed and not entered into the purchase order module, the School Business Office were not aware that these purchases had occurred. It is our belief that the manual purchase orders in many cases were being prepared when the invoice was received. Proper internal controls over purchasing must include a procedure that requires the Business Office to approve all purchase orders before they are issued. An even more important internal control must require a Business Office approved purchase order before a department head obligates the School to incur an expense. Any violation of either one of these control procedures represent a significant violation of internal control and must be strictly enforced on a go forward basis. These violations directly contributed to the illegal deficit in fiscal year 2018. This is a violation of Massachusetts General Law Chapter 44 Section 31 Liabilities in Excess of Appropriations Forbidden.

In July 2018, the finance team realized that a significant budgetary deficit existed. From this point forward, the School decisions to deal with the deficit was substantially in accordance with laws, regulations and sound business practices. Once the finance team was aware of the deficit they did not allow any further expenditures to vendors, they informed the Superintendent, School Committee, Town Officials and independent auditors of the

potential magnitude of the problem. The initial worst case deficit was estimated at \$1.7 million due to a large influx of purchase orders at year-end and the limited time the finance team had between realizing there was a problem and the need to immediately inform people of that problem. Upon further review in the ensuing weeks, many of these purchase orders were found to be duplicates or issued in error and therefore the final deficit ended up at approximately \$700,000. In September 2018, Town Meeting voted to transfer approximately \$700,000 from the Stabilization fund to the School Department to offset the budgetary deficit. The invoices for 2018 were processed through an October 2019 warrant.

The cumulative effect of not having a standard set of policies and procedures for School finance created the material weakness that resulted in an over-expenditure of the approved budget going undetected during the year. Since the School changed its budgeting process for fiscal year 2019 many of our recommendations for change in the process have already occurred.

We consider the matter above a material weakness in internal control due to:

- Lack of documented financial policies and procedures.
- Lack of monitoring the fiscal year budget.
- Not maintaining the integrity of a line-item budget.
- The magnitude of the misstatement.
- Circumventing the purchase order process that is in place.
- A complete breakdown of how the use of the purchase order process.

Conclusion/Recommendation

In summary, the objectives of an internal control structure are to safeguard the assets of the School and provide reasonable assurance that transactions are executed in accordance with management's authorization and recorded properly in the ledgers. The omission of one or more elements of internal control can compromise the School's ability to obtain these objectives. We have concluded that the matter discussed above, individually and collectively, constitutes a material weakness under standards established by the American Institute of Certified Public Accountants.

We recommend the School Department implement procedures to strengthen budgetary controls to provide reasonable assurance that expenditures are reported in the School's financial records in the proper fiscal year. Changes should include but not limited to the following:

- Document all newly established financial policies and procedures. Present these to the School Committee for approval.
- Include in these policies a process to review any significant intentional or repeat violations by employees of the newly established policies and procedures with the School Committee.
- Establish a process for approvals of required budgetary transfers to maintain the integrity of the budget cost center/line-item. The process must not allow for the over expenditure of a line-item. Establish dollar limits for budgetary transfers that allows for single to multiple approvals by the Business Manager, Superintendent and School Committee.
- Establish a formal budgetary transfer request form.
- Develop a standard monthly financial report for presentation to the School Committee. The report will include a Budget-to-Actual report on expenditures along with projections for the remainder of the year.
- Establish formal standards on how projections are estimated and the assumptions used to make the projections.
- Establish monthly, quarterly and year-end closing checklist for general fund and special revenue funds.

Management's Response

All school policies have been revised and adopted by the School Committee. Standard monthly financial reports are being presented to the School Committee by the Business Manager.

PRIOR YEAR COMMENTS

POLICE DETAIL ACCOUNT

Prior Comment

The Police Detail Agency fund has had a significant negative cash balance in prior years. The deficit is due to inadequate billing and collection practices. As a result, a permanent deficit may exist in this fund that the general fund will have to make whole, thereby reducing reserves and free cash.

During the past three years, significant progress has been made for police detail billing and collections practices. Delinquent receivables have been turned over to the Town's Deputy Tax Collector for collection, reconciliations are now occurring, and additional safeguards were put into place to mitigate delinquencies at the time a detail is requested, up to and including the requirement of payment in advance.

Current Status

The Department is still making progress with billing and collections. The Department hired a part time employee to work exclusively on police details reconciliations. The Department has implemented a software package known as Police Detail Tracking System (PDTTS), which automatically tracks details, personnel eligible for details and updates schedules/ timesheets according to the officers awarded to each detail.

Continuing Recommendation

We continue to recommend that the Department continue to be diligent with collections of police detail and continue to reconcile to the general ledger on a monthly basis.

Management's Response

The Town considers this matter resolved after implementing a reconciliation process that has proved to be successful. This process ensures the account continues to be monitored regularly and safeguards against delinquent balances.

PAYROLL WITHHOLDINGS

Prior Comment

The balances in the Town's payroll withholdings liability accounts at year-end should approximate the amount that will be paid in the subsequent month to the appropriate third-parties. During the prior year audit, we noted that the balances of these withholdings accounts had not been reconciled to a detailed listing of expected payments due in subsequent periods. Inaccurate payroll withholding liability balances could result in an increase or decrease in the Town's free cash.

Current status

The Treasurer's office hired a full time employee who is responsible for reconciling payroll withholdings; however, the reconciliations are not occurring on the desired monthly basis.

Continuing Recommendation

We continue to recommend that the Town implement procedures to reconcile the payroll withholding liability account balances on a monthly basis. We further recommend that a monthly or quarterly reconciliation be signed

off on by both the Treasurer's office and the Accounting office to ensure timelines are upheld.

Management's Response

The Treasurer's Office is working on reconciling all withholding accounts. The Treasurer's staff will use a separate spreadsheet each month to review with the Accounting Office and have the responsible parties sign off on the variances found.

DOCUMENTATION OF INTERNAL CONTROLS

Prior 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 were 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).

Management is responsible for internal controls 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 must incorporate the 5 major components of internal control, while addressing the 17 principles of internal control that support the COSO framework. Refer to www.coso.org for articles describing the 5 components and their 17 principles in detail.

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.

Management's Response

The School Administration staff agrees with the comment and is instituting the recommendations. A draft COSO Framework is underway and anticipated to be completed in the coming months.

SCHOOL REVOLVING FUNDS AND STUDENT ACTIVITY FUNDS

Prior Comment

During the prior year, the Music and Performing Arts Revolving Fund and student activity funds were subjected to various examinations from independent audit firms both of which identified significant deficiencies in their operations. The audit firms made recommendations to change the internal controls, policies and procedures to be in compliance with laws and regulations. These reports are available by contacting the School Department.

The report related to the Music and Performing Arts Department disclosed that the Department Director had maintained an unauthorized cash fund for several years. Receipts received in cash for performances were not regularly deposited with the Town Treasurer but instead were used for expenses and payroll. This practice does not comply with Massachusetts General Laws and regulations. There was no meaningful documentation supporting the receipts withheld or the expenses.

We have noted that after the reports were issued the School Business Office began the process to making the recommended changes during fiscal year 2018.

Current Status

The following procedures have been put in place by the School Business Office to address recent findings in conjunction with Music and Performing Arts Department agreed-upon-procedures engagements performed by two separate independent audit firms:

- Two bonded individual(s) have been assigned to work the sales of tickets at the music events that involve the handling of cash.
- A petty-cash box of \$200 is signed out at the start of an event (to make change), and turned back over to the Business Office at the conclusion of each event in the same amount.
- All cash is transported in locked cash bag - One individual working the event is given the key, the other the locked bag containing the cash.
- The money is counted by the two individuals working at the conclusion of the event, which is documented with two signatures and placed in the locked cash bag.
- The next business day following the night of an event, the Business Manager reconciles the cash collected to the report in the Tix System. The funds are then turned over for deposit with the Town Treasurer.

Additionally, the School Business Office has taken the following actions in response to findings from the Student Activity Audit Report for the period ending June 30, 2017:

- New Student Activity Policy has been written and adopted by School Committee.
- A mandated training on Student Activities for principals and secretaries was conducted on April 25, 2018.
- The appropriate checking and agency accounts have been established with the Town Treasurer.

- Bonding applications have been completed for all Principals and Secretaries involved in the handling of the school's student activity account.

An independent audit firm is also conducting a review of all other revolving funds with a special focus being placed on whether the internal controls of any activity that charges a fee is adequate to prevent similar violations of laws and regulations.

Continuing Recommendation

We continue to recommend that the staff responsible for operating other revolving funds along with those that are collecting revenue continue to monitor the internal controls implemented to ensure the proper handling of transactions and that the School Department continue to monitor internal controls on an ongoing basis.

Management Response

The School Administration will continue monitoring the internal controls on revolving fund revenue and implement changes in practice when appropriate. Currently, an engagement on revolving funds is being performed, with a focus on the five accounts deemed as "high-risk"; administration intends to implement any recommendation provided by the auditors at the conclusion of the engagement. School revolving accounts are also incorporated in the monthly financial report being presented to the School Committee.

CURRENT YEAR COMMENTS

TAILINGS

Comment

The Treasurer's office currently tracks the yearly activity for all long outstanding checks. Following the Massachusetts Abandoned Property Laws, as applicable to municipalities, the Treasurer's office properly sends letters, advertises and holds the checks for 90 days until voiding the checks and moving them into tailings. After a year the Town is able to move these checks back into the General Fund. We note that there is a balance of approximately \$17,000 that has been carried over from years past that could be moved back into the general fund as they are over a year old from when they were moved into Tailings.

Recommendation

The Town should move the long outstanding checks from tailings back into the General Fund. Each year the Treasurer's office should reconcile the activity that has been added to the Tailings account and return these funds to the general fund.

Management Response

The Treasurer's Office has directed the Accounting Office to transfer \$17,745 of tailings to the General Fund on January 30, 2019. We will continue to follow the abandoned property regulations and determine every year if any additional funds can be transferred to the General Fund.

RECONCILIATION OF CASH

Comment

During fiscal 2018, the Treasurer converted the Towns cashbook from QuickBooks to the Munis cash module. The primary function of the software is to allow the Treasurer and Town Accountant, in real time, to monitor and reconcile cash activity.

It is reasonable to anticipate that the new system and the procedural changes it required would cause a delay in the reconciliation process and expose any unknown issues. We noted this to be the case during our audit work on cash. During implementation, variances between the old and new system, cashbooks and the bank balance have not been fully resolved by year-end. We were informed of the variance before we began our audit of cash and the Treasurer is tracking the variance on a monthly basis to determine where the variance originated. We believe the cash balance is reasonably stated on the financial statements.

Recommendation

We recommend that the Treasurer continue to monitor the variance between the bank and the cashbook on a monthly basis. Once the variance is determined, the Treasurer should document the components of any adjustment to the cashbook and review the adjustment with the Town Accountant.

Management Response

The Treasurer's Office has been reconciling on a monthly basis and during that process we have cleared all but three accounts with variances that existed at the end of the prior fiscal year. We expect to clear the remaining variances in the near future. We will continue to monitor the cash balances with the Accounting Office monthly and if a new variance occurs, we will resolve it timely.

FRAMEWORK FOR ASSESSING AND IMPROVING CYBERSECURITY

Comment

Throughout an organization's normal course of business comes the need to collect, transmit, and store extensive amounts of personal and financial information, in both paper and electronic form, relating to residents, vendors and employees. The use of technology has become a driver in helping organizations stay current and succeed. However, the sharing and compilation of this information lends itself to increasing the organization's vulnerability to either a cyber-computer attack, ransomware attack, or a security breach, all are considered cybersecurity attacks.

Management must be aware of the risks associated with the collection of this information and be diligent in implementing the proper policies and procedures to help to expose these risks. While impossible for an organization to eliminate all risks associated with a cybersecurity attack, an organization can take a variety of steps to mitigate its exposure, satisfy its governance responsibilities and help to minimize the impact of any attack occur.

Because management is ultimately responsible to develop, implement and operate an organization's cybersecurity risk management program, management is ultimately responsible for developing, and presenting to the organization an overview of the entity's cybersecurity risk management program.

The first step in understanding an organization's risks and working to develop and implement an effective cybersecurity plan, an organization needs to conduct a risk assessment and understand their where its greatest exposure and vulnerabilities lie. This can be completed internally if the organization has an experienced information technology team, or there are many organizations that employ experienced professionals in the information technology arena to assist in the risk assessment and implementation if desired.

Once a risk assessment is completed, the next step is to develop and implement a cybersecurity risk program, which needs to be continually reviewed and updated as technology changes. This response program should be tested to determine if the proper policies and procedures have been implemented to minimize the potential costs of a cyber-attack.

The obvious benefit to conducting a risk assessment is having the knowledge and an objective identification of the organization's areas where exposure to risks is more prevalent and allows for the development of a roadmap to address the remediation of these risks.

Some of the main areas of review that should be incorporated into the risk assessment are as follows:

- Electronic Records, Paper Records (Human Resource Records, Bank Statements, Payroll Records), Resident Data, Employee Data, Physical Security of hardware and software, Any Third Party or Vendor exposure, Password Security, E-Mail Security (Understanding the risks of malware and ransomware), Mobile phones and Portable Storage Devices, System Backup Procedures, Virus Protection Software, Data Encryption, Document Retention and Destruction Policies, Use of Unauthorized Software, Ongoing Employee Training.

Risk management is the ongoing process of identifying, assessing the risk, and developing a plan to address the risks. In order to manage their risk, organizations should understand what the likelihood is that an event will occur and assess the resulting impact of the event. This will assist the organization in developing their own acceptable level of risk tolerance and help to prioritize the areas in which internal controls should be strengthened.

Recommendation

We recommend that management take a pro-active approach and assess their risk exposure to a cyber-attack. An internal team with the proper information technology experience can be used or a third party vendor that specializes in this type of assessment can be used.

Once a review is completed, we recommend that policies and procedures be developed to mitigate each identified risk to an acceptable level that fits with the organization's determined risk tolerance.

We also recommend that the community look into obtaining Cyber Liability Insurance, which will help to mitigate the costs associated with a breach in information technology security.

Finally, we want to make management aware that technology is constantly changing and that this is not a one-time static process, this will require additional risk assessments and the updating of policies and procedures with the changing technological landscape.

Management Response

In the normal course of operations, the MIS Department reviews the integrity of the data network, and possible breaches or vulnerabilities for unauthorized access. Two members of the MIS Department have been trained and certified in two different cyber preparedness aspects. The Town plans to form a Community Cyber Preparedness Committee that will discuss our current cybersecurity practices. This group will explore all areas of cybersecurity including the potential of contracting with a vendor to perform a Network Threat Assessment and considering the need or benefits of obtaining Cyber Liability Insurance.