

TOWN OF BURLINGTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2019



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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, 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, 2019, 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.

December 30, 2019

TOWN OF BURLINGTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2019

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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 four 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. The Department has implemented a software package known as Police Detail Tracking System (PDTs), which automatically tracks details, personnel eligible for details and updates schedules/ timesheets according to the officers awarded to each detail.

Current Status

This comment is considered resolved. The Department has implemented safeguards against delinquent balances and continues to monitor and reconcile police details regularly.

PAYROLL WITHHOLDINGS

Prior Comment

During the prior year audit, we noted that the balances of these withholding accounts had not been reconciled to a detailed listing of expected payments due in subsequent periods. 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. Inaccurate payroll withholding liability balances could result in an increase or decrease in the Town's free cash.

Current status

During the current year audit, we noted that the process for reconciling payroll withholdings had improved from the prior year, however the recommended monthly or quarterly reconciliation be signed off on by both the Treasurer's office and the Accounting office is not occurring.

Continuing Recommendation

We continue to recommend that the Town reconcile the payroll withholding liability account balances on a monthly basis. We further continue to recommend that monthly or quarterly reconciliations 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 and Accounting office will sign off quarterly to make sure all accounts are in balance.

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.

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

Current Status

This comment is considered resolved. The School Administration staff has documented their internal control system relating to federal awards using the COSO Internal Control Framework.

SCHOOL REVOLVING FUNDS AND STUDENT ACTIVITY FUNDS

Prior Comment

It was noted 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.

Furthermore, an independent audit firm also conducted 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. After the reports were issued the School Business Office made the necessary changes that were recommended in all reports.

We recommended 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.

Current Status

This comment is considered resolved. The School Administration continues to monitor the internal controls on revolving funds and implements changes in practice when appropriate. School revolving accounts have also been incorporated in the monthly financial report presented to the School Committee.

TAILINGS

Prior Comment

The Treasurer's office 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 was 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.

We recommended that the Town move the long outstanding checks from tailings back into the General Fund.

Current Status

This comment is considered resolved. The Treasurer's Office directed the Accounting Office to transfer \$17,745 of tailings to the General Fund on January 30, 2019.

RECONCILIATION OF CASH

Prior 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. During implementation, variances between the old and new system were identified and were not fully resolved by year-end. The Treasurer was tracking the variance on a monthly basis to determine where the variance originated.

We recommended 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.

Current Status

The variance continued to be tracked on a monthly basis and it was determined that an entry should be made to true up the Treasurers cashbook. This entry had a \$500,000 positive impact on the Towns cash balance.

Continuing Recommendation

We continue to recommend that the Treasurers office reconcile the cashbook to the bank statements on a monthly basis in order to maintain accurate financials records, which is a critical element of internal control procedures. We further recommend that on a monthly basis the Treasurer's office provide the cashbook to bank reconciliation to the Accounting office to ensure that the general ledger reflects all activity. Having both departments review the reconciliations monthly will allow variances to be identified and resolved timely.

Management Response

The Treasurer's office and Accounting office will sign off quarterly to make sure all accounts are in balance.

FRAMEWORK FOR ASSESSING AND IMPROVING CYBERSECURITY

Prior 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.

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

Current Status

This comment is considered resolved. The Town's 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 also formed a Community Cyber Preparedness Committee that will discuss cybersecurity practices. This group explores 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.

SCHOOL DEPARTMENT BUDGETARY CONTROL

Prior Year Material Weakness Comment

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 School was able to end each year with a bottom-line balanced budget. We noted that focus was on the bottom-line of both the Operation 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 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. The implementation of the new budget process required the completion of the fiscal year 2019 comprehensive budget document in April 2018 for Town Meeting.

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. At year-end the finance team realized that a significant portion of purchase 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 model, the School Business Office was unaware 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.

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 problem. 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 team created the material weakness that resulted in an over-expenditure of the approved budget going undetected during the year. We recommended 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.

Current Status

We consider this material weakness resolved. 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.

CURRENT YEAR COMMENTS

TAILINGS

Comment

The Town has a current liability of approximately \$128,000 of tailings that relates to checks that were written to vendors and/or employees, went unclaimed for a period of time, were voided and then recorded as a liability in accordance with the Commonwealth's abandoned property (tailings) laws.

We noted that this balance has not changed since 2014 and contains checks that date back to 2005. On a regular basis, the Treasurer should be analyzing the checks that were placed into tailings and then, in accordance with Massachusetts General Laws (MGL), make attempts to return the check to the rightful owner. After a year the Town is able to move these checks bank into the General Fund.

Recommendation

We recommend that the Treasurer follow the Commonwealth's abandoned property laws and move the long term outstanding checks back into the General Fund.

Managements Response

This balance is made up of unclaimed real estate and personal property credits. These balances were removed from each of the tax accounts and placed into Tailings. The Treasurers office will review these balances and direct the Accounting office to transfer the appropriate amount to the general fund.

SCHOOL FINANCIAL MANAGEMENT POLICIES AND PROCEDURES

Comment

In the prior year the School experienced a general fund budgetary deficit that was not identified until late into the fiscal year. The Superintendent and Business Office implemented sweeping changes on how the budget was developed and several new internal accounting controls were implemented. The Superintendent and School Committee requested that we review the new processes and make recommendations for improvement. We reviewed the fiscal year 2019 interim and final budget to actual reports and projections for accuracy and if the amounts were supported by adequate documentation. We reviewed the process of managing potential budget deficits by cost centers and appropriation line items through interim budget transfers.

The results of our tests indicated that the majority of the new procedures were working as intended and the actual results for fiscal year 2019 produced a budgetary surplus.

We discussed the benefits of making budgetary transfers during the year between cost centers and individual appropriation accounts as a best practice of oversight and management of the budget. This type of budgetary control is utilized by the Town since they do not have a bottom-line budget. When we reviewed the actual budget to actual ledger reports several individual appropriation accounts were in a deficit position for which interim transfers were not currently being made. We found that the financial reports presented to the School Committee by the Business Manager is used as the budgetary control function using the same cost centers that the approved budget is presented in, but on a monthly basis. This process requires a crosswalk between the ledgers and reports.

Recommendation

We recommend the Business Office implement a process to make internal budgetary transfers during the year that requires each cost center or appropriation account be managed to operate with a balanced budget throughout the year in Munis. A transfer policy had been adopted by the School Committee during the fiscal year that should be followed by the Business Manager for the entirety of fiscal year 2020. We believe this budgetary control process will enhance the overall financial controls. We also recommend that the school's chart of accounts be rebuilt to satisfy the correlation between the cost centers. The monthly financial reports should continue to be presented on a monthly basis.

Management Response

The School Committee formally adopted a policy on Budget, Spending, and Transfer Authority on February 13, 2019. The policy specifically addresses the approval requirements regarding budget transfers. Monthly financial reports are still being presented to the School Committee, a practice we plan to continue. We plan to implement a new chart of accounts in the near future and perform budgetary transfers in Munis throughout the year to maintain a balanced budget across cost centers. The Business Office recently began implementing an additional practice to increase budgetary controls, which is the use of the payroll encumbrance function in Munis.