CITY OF QUINCY, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2008

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City for the year ended June 30, 2008 and issued our report thereon dated March 17, 2009. Our opinions on the financial statements and this report, insofar as they relate to the Quincy Contributory Retirement System, are based solely on the report of other auditors. In planning and performing our audit of the financial statements of the City of Quincy, Massachusetts (the City) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We have identified these findings in the material weakness section of this report.

During our audit we also 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 concerning the material weakness and other matters.

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

Powers & Sullivan

March 17, 2009

CITY OF QUINCY, MASSACHUSETTS

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Management Letter Summary

The management letter incorporates our findings for fiscal year 2008 as well as the findings from the independent auditors from fiscal year 2007 if they are still applicable. The management letter is divided into four different sections.

The Material Weakness section includes findings that is defined as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Significant Deficiency section includes findings that do not rise to the level of a material weakness. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The Other Matters section includes minor internal control deficiencies along with matters for the City to consider.

The Quincy College section relate to the operations of the College.

The City will need to respond to the findings of the management letter with a corrective action plan on how these findings will be eliminated in the future.

Material Weakness

INADEQUATE DESIGN OF INTERNAL CONTROL OVER THE PREPARATION OF FINANCIAL STATEMENTS BEING AUDITED

Comment

It is the City's responsibility to design the internal control procedures that will result in the timely preparation of the financial statements. The underlying problem is that there are no documented processes that allow City staff to convert the budgetary ledgers into financial statements that are in compliance with generally accepted accounting principles (GAAP). A contributing factor in FY2008 was that the City Auditor, who was responsible for this process, left the City in July 2008.

The following matters were noted during our audit of the City for fiscal year ending June 30, 2008. Overall our comments in this section relate primarily to control deficiencies that we believe should be regarded as material weaknesses in internal accounting control.

1. Ineffective oversight of the City's financial reporting and internal control by those charged with governance.

2. Restatements of previously issued financial statements to reflect the correction of a material misstatement for transactions incorrectly recorded during fiscal year 2007.

3. Identifications by the auditors of material misstatements in the financial statements for the period under audit that were not initially identified by the City's internal controls.

4. Management did not have a documented plan on how to present the newly established water and sewer enterprise funds.

In July of 2008 we performed our audit planning work for the City's annual audit and, in agreement with management, we scheduled the year end audit work. We provided the staff with an audit manual that explained the audit adjustments that were needed to convert the budgetary ledgers into GAAP financial statements. Shortly after beginning the year end audit work it became clear that these year end adjustments were not ready. We believe that if the internal control process was documented and if the staff had completed these adjustments in the past this finding would not be valid. The following is a summary of the most significant issues:

- The Treasurer's cash and investment balances were not properly reconciled.

- The activities for all water and sewer enterprise funds were not segregated for the new presentation.

- Capital assets activity was not prepared.

- GAAP adjustments for workers compensation, compensated absences, other post employment benefits and other similar adjustments were not prepared.

This year's closing process was marked by confusion, delays, and problems caused by miscommunication among the accounting personnel. For instance, some important procedures were not performed on time while others were performed too early in the process. The result was delay in producing financial reports needed by management and the auditors. These adjustments should be assigned to specific staff and completed as part of their daily responsibilities.

Recommendation

In order to strengthen internal control over financial reporting, we recommend that management re-evaluate the roles and responsibilities of the accounting and finance departments to ensure that the books and records of the City are being maintained in accordance with internal policy and with legally prescribed external requirements. The formal design and documentation of a system of internal controls over the preparation of financial statements

with specific deadlines and assignment of responsibilities is needed to eliminate this finding. The Director of Municipal Finance should be designated as the City's staff responsible for the completion of the financial statements.

We believe that the year-end closing will proceed more quickly and smoothly by developing a logical order for closing procedures and assigning responsibility for completing the procedures to specific personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished.

INDIRECT COST ALLOCATION

Comment

Prior to FY2008, the City only had one enterprise fund and the indirect costs were set by legislation on a specific dollar amount with the Quincy College Enterprise fund. Therefore for budgetary purposes there was little need to have a full blown indirect cost allocation plan.

In FY2008, the City established enterprise funds for both the water and sewer activities. The general fund provides services and pays for certain fringe benefits for its enterprise operations. It is sound business policy to complete a cost allocation plan to charge the enterprise funds for their share of these costs. Any cost allocation plan is designed to consistently estimate each cost center's share of services provided to it by another cost center. The department being charged must be receiving a benefit from the services provided in order to be charged. The charge cannot be disproportionately allocated to one department.

The methodology used in FY2008 to charge overhead costs and fringe benefits to enterprise funds was not adequately documented. The City used the budget of the water and sewer fund compared to the total City budget as the basis of all indirect costs being allocated. This resulted in a flat rate of 7.1% for sewer and 5.0% for water. These rates were used to allocate general fund costs, such as auditing and treasury, to the enterprise funds. The allocation of these charges to the overhead departments is proper however the City also charged the Police and Fire departments.

The allocation of 12.1% ($4.5 million) of the police and fire expenses to the water and sewer charges violates standard cost accounting principles since there is no rational relationship of the value of services provided to the actual cost. This is a material weakness in the design of the cost allocation plan. The result of this erroneous allocation is that the fund balances of the enterprise funds are decreased and the general fund is increased.

The City is also using the direct charges to an overhead department as the allocation base. A proper cost allocation plan would "fully load" an overhead department with all of its costs to calculate the allocation base. For instance, the City Auditors department is an overhead department and it is proper to allocate a share of its cost to the enterprise funds. The costs now being charged are based on budgeted expenditures such as salaries and other direct costs. It does not include the cost of health insurance, pension expense, a utility charge, telephone, custodial and similar costs. By not fully loading these overhead departments the net result is that the enterprise funds are being undercharged and the general fund is subsidizing their operations.

The use of the simple allocation method of the percentage of the total expenditure budget may not be the most accurate methodology to use for the allocation of cost for each department. Some expenditures may be better allocated using a different basis. For example, the normal allocation basis for building expenses is determined by the square feet occupied by a department in relation to the total square feet of the building. The City needs to examine whether the current method provides the best results.

As part of the overall allocation, the City allocated certain charges that are considered direct expenses and not indirect costs. The most accurate way to charge an enterprise fund is to budget as many direct expenses in that fund and not rely on an estimated allocation. These expenditures include health insurance, pension, debt service and shared employees. The City should consider the benefit of budgeting as many direct cost in the enterprise funds.

A properly designed cost allocation plan would be a City-wide plan that encompasses all departments. The plan would document the basis for all charges to be allocated and at the same time would fully load the overhead departments for a more accurate allocation. The City currently does not have such a plan in place.

Recommendation

Indirect costs should be apportioned by a systematic and rational allocation methodology that is documented in a City-wide cost allocation plan and approved each year.

The plan documentation should identify all fringe benefits and overhead departments that support each enterprise fund. The plan should document the direct and indirect charges used to calculate the allocable cost of the overhead department. The plan should document the appropriate base to allocate the specific cost. For example, the cost of processing payroll is allocated based on the percentage of the number of employees in a department to total City employees. The plan should identify costs that can use actual direct charges for specific expenses. This can be used for the employer share of health insurance where the specific premiums and employees can be determined. The plan should require a year-end reconciliation of the estimate budgeted allocation to the actual results of operations. A policy should be established to adjust for material variances.

The benefit of implementing these recommendations will be the assurance that the general and enterprise funds are not subsidizing each others operations and that the City has a documented sound policy that can be used to balance future budgets.

FY2009 Status

We reviewed the allocation for charges to the water and sewer enterprise funds and found that the police and fire charges were eliminated and that debt service was budgeted directly in each fund. There was a marked improvement in the design and the finding would no longer be considered a material weakness.

ENERGY PERFORMANCE CONTRACT AND CAPITAL LEASE

Comment

In May 2007, the City entered into an energy performance contract for approximately $32 million which is being funded through a capital lease. The underlying concept for this type of project is that the upgrades, repair and replacement of equipment, buildings and systems will result in energy savings which over time will cover the cost of the capital lease and maintenance costs. The contract contains provisions that guarantee the savings performance. The execution of the contract occurred in FY2007; however the majority of work and expenditures occurred in FY2008.

Honeywell International provided both the capital lease financing and contracting in accordance with the agreement. The capital lease agreement required the funds to be deposited in an interest bearing escrow account and had a payment schedule to Honeywell Building Solutions. The actual work performed and the acceptance of that work by the City did not factor into the payment terms.

Our finding of a material weakness in internal controls over financial reporting relates to the lack of any accounting for the funds and the required restatement of the FY2007 financial statements. The following findings are the most serious accounting deficiencies:

- Although the contract was executed in May of 2007, the City did not budget for the $1.4 million scheduled lease payment due in FY2008. This created a deficit that required a stabilization fund transfer to fund the appropriation.

- The City paid the lease payment prior to the appropriation order in May 2008; however the cash transaction was intentionally left off the cash book and the accounting ledgers until the appropriation was voted. Not recording a transaction when it occurs could be considered fraud in a financial statement.

- The FY2007 financial statements properly recorded the capital lease liability but reported a $32 million capital asset in error. The City did not record the funds on deposit with the escrow agent, the interest earnings and the payment to Honeywell Building Solutions. This required a restatement of the fund based and government-wide financial statements due to the correction of this error.

- In FY2008, the City did not capitalize the costs of the work performed and did not record the activity of the escrow account. These amounts were proposed as audit adjustments and now properly reflected in the financial statements.

- The agreement includes a provision for long-term maintenance, with annual payments, that are tied into the performance guarantee. Although we are aware of performance issues being discussed between the City and Honeywell, we did not see a provision in the FY2009 budget for the scheduled payment.

Once this contract was signed, the City was responsible to account for this on the ledger and needed to determine the proper budgetary considerations, ledger reporting and financial statement treatment.

In addition to the accounting deficiencies, we have become aware of other matters of concern. We are not aware of a plan of action to monitor the performance of contract or one that determines whether the actual value of the work performed matches the contractual value.

The contract contains Schedules of Savings and various Measurement and Verification Plans which were devised to determine if the projected savings did in fact occur. We are not aware of any reports that have been made available to the City or performed by the City that calculates the savings. We believe that the lack of this

information hinders management's ability to budget in the future and does not allow them to measure actual performance against the contractual guarantee.

Recommendation

We recommend that before the City executes a contract of this magnitude and complexity, an internal evaluation and plan of how the City will monitor the performance of the contract, value the work performed, determine the budgetary impact of the scheduled expenditures and develop a plan to account for the activity on the ledgers.

We recommend that the City consider the implication of intentionally not recording any activity for the purposes of not disclosing the transaction.

FY2009 Status

We are aware that City management is currently analyzing the actual performance of the contract and is in discussions with Honeywell to determine how to properly monitor the contract on an ongoing basis.

RECONCILIATION OF CASH AND INVESTMENTS

Comment

The Treasurer's and Auditor's Office is responsible to complete timely reconciliations of the activity and balances of the cash and investments. We believe this function is the most important element of the overall internal financial controls of the City. The lack of a complete and timely reconciliation is considered a material weakness.

Internal control procedures should be designed in a manner that ensures all activity is recorded in the cash book prepared by the treasurer as the transactions occur. At the same time as the activity is being posted to the cash book a corresponding posting would be made to the general ledger maintained by the Auditor's department. The cash book balance and the general ledger cash balance should match at all times. At the end of each month the Treasurer would complete a reconciliation between the cash book and bank statements. The Treasurer and Auditor would then reconcile the cash book and general ledger.

For the City of Quincy, there is a process that reconciles the Auditor's general ledger balance with the cash book on a timely basis each month. This process is not considered a material weakness. The Treasurer's department does not maintain a sound internal control process to complete the reconciliation between the cash book and the bank statements. This is considered a material weakness. As of the date of this letter the June 30, 2008 reconciliation was not finished. Some of the more serious deficiencies include:

- The cash book is maintained on an excel workbook and we believe it is not designed to efficiently allow for the bank to book reconciliation.
- Transfers between bank accounts are entered in a manner that does not allow for verifying that the transfer in matches the transfer out.
- We found that the documentation supporting the bank to book reconciliation was insufficient.
- We found a significant number of old reconciling items were carried from month-to-month without resolution.
- We found that the actual process of completing the reconciliation was not prioritized and therefore was not performed timely.
- We could not verify that a complete reconciliation was prepared at any time during FY2008.

- As noted earlier, we found that capital lease payments were not posted to the cash book until May 2008 even though the cash was disbursed several months earlier.
- Old outstanding checks are not investigated on a timely basis and not transferred to tailings.
- We are not aware if the City has evaluated the purpose for each bank or investment account.
- There are specific accounts related to trust funds that do not appear to match the corresponding balance in the Trust.

The lack of a timely reconciliation of the cash book increases the risk that errors will occur and not be detected and corrected.

Recommendation

We believe the current process to reconcile bank accounts is inadequate to allow management the ability to review them. The reconciliation does not always specifically describe the reason for the reconciling item, the format is difficult to follow and some accounts are never reconciled.

We recommend a new reconciliation process be formalized that utilizes the capabilities of the new management and accounting software being installed (QuickBooks in FY2009). Any outstanding reconciling items other than the normal deposits in transit, current outstanding checks and other timing differences must be adjusted before implementation.

At present, the City maintains numerous checking, savings and investment accounts. Many of the accounts were established for narrow purposes and have few transactions and small balances. We recommend that management periodically review the functions of all bank accounts to determine whether they are necessary. Only the minimum number of bank accounts consistent with operating requirements should be established. Numerous bank accounts result in complexity and inefficient administration. The time needed to record accounting transactions could be reduced if the Treasurer eliminated or combined bank accounts.

We recommend that the Treasurer's Office complete the task of reconciling the trust fund accounts to the balances in each respective trust.

Process and procedures should be documented and the Director of Municipal Finance should work with the Treasurer and Auditor to assign the staffing responsibilities to maintain the cash book and reconcile the balances.

FORMALIZE CAPITAL ASSET REPORTING

Comment

The City previously relied on the prior audit firm to maintain its capital assets and only provided the prior auditors with a listing of additions and deletions. We believe that methodology does not place the responsibility for the accuracy of the capital assets on management. As part of our audit we found that the assets acquired from the Honeywell lease was misstated by approximately $32 million. We also found that the amount capitalized for water and sewer infrastructure was less than the debt issued to construct those assets which required a $21 million restatement of capital assets.

The City has not implemented procedures to account for and audit fixed asset additions, deletions, disposals or transfers on a timely basis. In order to maintain a complete and accurate fixed asset listing the City needs to work on developing procedures to facilitate accurate capital asset reporting.

Recommendation

After year end, the City hired a consultant to assist them in implementing a new system to maintain the capital assets on purchased software. We recommend that management take on the responsibility to develop and implement procedures to track additions, deletions, disposals and transfers of fixed assets so that the proper adjustments can be made to the general ledger on a timely basis.

PREPARATION OF THE SCHEDULE OF FEDERAL AWARDS

Comment

The City is responsible for preparing the Schedule of Expenditures of Federal Awards (SEFA) each year in accordance with the Single Audit Act and OMB Circular A-133. The SEFA is required to list the amounts of all federal funds expended by the City and indicate whether it was a direct award or a pass-through award, the pass-through entity, the correct Catalog of Federal Domestic Assistance Number (CFDA) and the program title. The City expends approximately $20 million in federal funds each year from a variety of programs. The accounting ledgers are set up to track the federal funds separate from other funds; however, we found some federal and state grants recorded in the wrong funds.

The Auditor's Office could not provide us with a completed SEFA which is a material weakness in internal control over financial reporting and compliance. The completion of this document is of critical importance as the failure to properly prepare a SEFA could lead errors in the federal reports and increased granting agency oversight.

Recommendation

We recommend the City devise a plan to prepare the SEFA for inclusion in the federal compliance report in accordance with the Single Audit Act.

POLICE AND FIRE DETAIL FUND DEFICITS

Comment

The City maintains an agency fund for both the police and fire private details. These funds are allowed by law and are designed to act as a conduit between private businesses and the city public safety personnel where the business pays for 100% of the cost of the detail worked. The business also pays a 10% administration fee that is general fund revenue. The only way the fund can be in a deficit position is if the business does not pay or if the fund is charged for an internal detail.

At June 30, 2008 the police detail fund has a cash deficit of ($875,000) and the fire detail fund has a cash deficit of ($125,000). This deficit has been allowed to grow over the years and the City has taken not action to resolve the deficit or change procedures. The magnitude of the deficit and inaction by the City has made this finding a material weakness.

Both the police and fire departments bill the businesses and there is several hundred thousand in uncollected receivables outstanding at June 30, 2008. The ($1.0) million dollar cash deficit will be reduced as these outstanding receivables are collected in FY2009; however they are not sufficient to cover the entire deficit. We estimate that actual deficit will be in the ($400 - $700) thousand dollar range. This deficit must be raised by the general fund.

Based on our discussion with the police, fire and City staff they all agree there needs to be a new system established which would include aggressive collection policies.

Recommendation

We recommend the actual deficit for June 30, 2008 be determined and the deficit be covered by the general fund. A new standard set of procedures need to be developed to define the roles and responsibilities of each department so that the fund can be constantly monitored to prevent future deficits.

Significant Deficiencies

INTERNAL CONTROL POLICIES AND PROCEDURES MANUAL

Comment

We noted that most departments do not maintain a formal internal control policy and procedures manual documenting day-to-day processing and controls. The City is at risk if critical tasks cannot be completed due to an extended or unforeseen absence. A formal internal control policy and procedures manual will assist each department head in the training of new departmental employees thereby reducing the amount of time required away from the daily departmental operations.

Recommendation

We recommend that each department head develop an internal control policy and procedures manual that includes proper reviews and approvals by management. The document should be written with sufficient detail to allow a new employee the ability to complete the task by reviewing its respective directions. This document should be updated for any system or policy changes. A master manual of all procedures should be maintained and stored in a secure location. In addition, all department heads should be familiar with all policies and procedures within their office and be able to complete all necessary tasks in order to sufficiently train employees. The City should consider using the MUNIS documentation as a primary source of how all processes should be documented.

ESTABLISH AN INTERNAL AUDIT DIVISION

Comment

The City does not have an internal audit function. We believe that the City has grown to a size and complexity that warrants consideration of an internal audit function. Internal auditing is an independent appraisal activity within the City for the review of accounting, financial, and other operations. The overall objective is to carry out a program of tests of the City's financial and operational activities and transactions to provide management with information about the effectiveness (and efficiency) of established accounting and operational policies, procedures, and controls, and the extent to which they are being followed. In the course of gathering such information, the reliability of accounting and other data generated within the City may be evaluated. Another objective is the prevention and detection of fraud through the performance of audit tests and procedures.

Establishment of an internal auditing function could result in substantial benefits to the City in terms of strengthened internal control and increased efficiency. Some benefits of an internal audit function are as follows:

- Strengthening the City's internal controls over assets and increasing the reliability of the accounting records.
- Reducing the time spent by management in the development of City procedures.
- Increased assurance that City policies are being adhered to and that departmental procedures and controls are being reviewed objectively.
- Ensuring that each department is accounting and reporting in a consistent manner and that they are operating in accordance with management's wishes.
- Making procedural reviews to determine that the various departments are operating efficiently.
- Providing an excellent training ground for future secondary and top management positions.

Recommendation

We recommend that management evaluate the costs and potential benefits of establishing an internal audit function.

We offer the following items for the internal auditor, once hired, to take into consideration when implementing the internal audit function:

- Meet with the City Council and senior management to obtain a clear idea of their expectations for the internal auditor, including an assessment of the most significant risks the City faces and problems the auditor should address. The internal auditor would also establish expectations of those parties' support of the internal audit function and that they will promote the internal audit function, and require cooperation, throughout the City.
- Obtain and review the City's written policies and procedures, including those relating to management's responsibilities in managing the City.
- Identify the departments, locations, processes, and operations (including IT) that will be subject to internal audits.
- Meet with department heads and operations (including IT) managers to gain an understanding of their concerns and the risks they face.
- Meet with the independent auditors and review their communications to identify internal control issues or deficiencies they may have identified and to learn their perspective of the risks the City faces.
- Assess the internal and external risks the City faces.
- Develop a charter for internal audit that includes a description of its objectives, authority, independence, responsibility and scope of work.
- Develop an internal audit plan, based on the risk assessment and requests from the City Council and management.
- Develop a budget for internal audit, including personnel and travel, if necessary.
- Develop a staff training plan, if applicable.
- Establish a reporting channel and process for following up on recommendations in internal audit reports.

We believe that this blueprint can demonstrate the City's commitment to the internal audit function, convey the City's expectations of the internal auditor and serve as a guide to the auditor in meeting those expectations. The City can obtain free guidance (such as sample internal audit charters) and information about resources on establishing an internal audit function from the Institute of Internal Auditors' website at www.theiia.org (select the "guidance" tab).

FY2009 Status

The City has restructured its financial management team and has clearly provided for an audit function separate from the financial operations. We believe this finding is still valid and can be used a guide to the new auditor.

Other Matters

FINANCIAL CONDITION

Comment

The City's financial condition has significantly deteriorated over the last several years. If this condition is not reversed the City's ability to provide essential core services will be adversely effected.

At June 30, 2008 the City only had $4.2 million in undesignated fund balance in the general fund. Over the past several years, the City has experienced continued general fund budgetary losses. These actual losses would have been greater if not for transfers in from other available sources such as special revenue fund accounts reserved for appropriation, the stabilization fund and an over-allocation of indirect costs to the water and sewer enterprise funds. The Stabilization Fund is down to $8.0 million and an addition $3 million is needed in FY2009 to cover the water and sewer enterprise deficits. Based on the review of the FY2009 tax recapitulation report, the City's reserves and additional resources have been essentially depleted for a community the size of Quincy. Considering these facts and the taxing limitations of proposition 2 ½, the City has had and currently is left with a structural operating deficit going forward.

A structural deficit is when a fund's normal recurring revenues are not sufficient to cover the normal recurring expenditures. The use of reserves to balance a budget should be limited to funding capital expenditures, unexpected events such as a significant drop in revenue or an emergency expenditure of funds.

The demands of balancing the FY2007 and FY2008 budgets along with limiting the increase in real estate taxes have led to aggressive revenue projections which fell well short of projections. Revenue shortfalls reduce fund balance and free cash which undermines the City's financial position.

The Commonwealth is currently expected to significantly cut local aid in FY2009 and the foreseeable future. These cutbacks will require adjustments for future budgets to absorb the impact of these cuts.

We feel that the full impact of these financial issues will have a significant effect on the City in FY2009 unless structural changes are made to increase revenues or decrease expenditures.

Recommendation

The City can address the current financial situation by (1) monitoring the fiscal year 2009 budgetary results on an ongoing basis and making adjustments, as necessary, to decrease expenditures if revenues fail to meet projections and to ensure that expenditures do not exceed appropriations except as allowed by law and as absolutely necessary, (2) by preparing future budgets using reasonable expenditure projections which can be funded by conservative, recurring revenue streams, (3) consider permanently reducing staffing levels and other discretionary expenditures, and (4) consider implementing a revenue enhancement program for either increased charges or new fees.

Some of the areas that the City should look to increase budgetary revenues in the near-term would be in the collection of outstanding receivables. Although the City has been actively pursuing the outstanding tax title properties, we noted several outstanding balances that, if acted upon and collected, could improve cash flows and help the City to meet or exceed revenue projections.

To help secure the City's financial future and prevent similar situations, the City can implement fund balance and reserve policies. A fiscal policy should include a plan to rebuild the City's stabilization fund and to rebuild and maintain the unreserved fund balance of the general fund. It should stipulate when reserves can be used, and define a range of the minimum and the target level that fund balance will be maintained. Rating agencies recommend a minimum balance of undesignated reserves of 5% of annual expenditures.

REVENUE ENHANCEMENTS

Comment

One of the possible solutions to the City's structural deficit is to increase revenues. Revenue enhancement can come in the form of increased collections of amounts already due, new fees, new grants and contributions, increased rates for fees and licenses, payment in lieu of tax agreements, internal control changes to current operations and other initiatives. We are not aware of a City policy that requires the periodic review of collection procedures, timing of requests for reimbursements, rate structure for fees, loss of potential revenues due to policy or controls, or new revenues.

We noted that the unpaid tax lien account at June 30, 2008 was $4,260,000 and this amount does not include penalties and interest. Dedicating additional resources to the collection process can produce immediate positive results.

Many communities across the state have implemented trash fees to recover a portion or all of the costs associated this service. Again, the City may want to evaluate the feasibility of new fees.

Recommendation

Our recommendation for revenue enhancement is meant to suggest that the City may benefit through the evaluation of potential new or increased revenue sources and an expedited collection processes as a means for addressing the City's financial shortfalls. It is not intended to imply that the City must raise fees or create new fees.

BUDGETARY INTEGRITY OF APPROPRIATION LINE ITEMS

Comment

The City is allowed, under MGL, Chapter 44, Section 31D, to over-expend the budget for the removal of snow and ice, as long as the appropriation for each fiscal year is at least equal to the prior year's appropriation. Any deficits created from this are raised in the subsequent fiscal year.

The policy of budgeting the minimum amount for snow and ice removal has become part of the ongoing structural deficit discussed earlier. The City has consistently postponed dealing with current budget problems, pushing them off until the next fiscal year. Although the practice of under-budgeting for snow and ice removal is legal, it does not demonstrate prudent budgeting practices.

Recommendation

The City should establish budget policies to incorporate realistic estimates for the removal of snow and ice in the initial City Budget. The amount budgeted does not have to be the worst case but could be the rolling average of the last three or five years of actual expenses.

The benefit would be to raise sufficient funds to cover the expected current expenditures and thus maintain fiscal stability from year-to-year.

REQUIRE EMPLOYEES TO TAKE VACATIONS

Comment

City employees are not required to take an annual, uninterrupted, one-week or longer vacations. Requiring annual vacations is an important internal control function designed to help an employer to detect errors, inefficiencies and irregularities; to provide management with a means of cross-training employees; and to help prevent employee burnout and the resulting inefficiencies. Additionally, it is important to require another person to perform the absent employee's duties while he or she is on vacation.

Recommendation

We recommend that the City consider implementing a policy requiring all employees to take an annual, uninterrupted vacation and that the policy be enforced.

STUDENT ACTIVITY FUNDS

Previous Finding

Massachusetts General Laws allow for the Schools to maintain student activity funds but places certain requirements on how they are to be managed and accounted for. The School and City have only partially implemented the legal requirements. The prior auditor recommended a separate audit of these funds be conducted.

Continuing Recommendation

The status remains unchanged. By not fully implementing the provisions the School and City is in violation of the law. From a practical standpoint, we have found that when these funds are subjected to the requirements of the law it is likely that funds are being held and spent on purposes outside the scope of the law. We have also found that many times the account detail does not reconcile to the actual cash balances. We recommend that the School comply with all provisions of the law, establish procedures on how each account is maintained, reconcile the detail accounts with the actual cash balances and provide the Auditor's Office with a full accounting of the activity and the reconciliations.

FRAUD RISK ASSESSMENT

Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the City perform a risk assessment to identify, analyze and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the City's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the City that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the City, its environment and its processes. The fraud risk assessment process should consider the City's vulnerability to misappropriation of assets.

When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.

- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.

- What assets of the City are susceptible to misappropriation?

- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?

- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.

- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze and manage the risk of asset misappropriation.

DEVELOP WRITTEN DISASTER RECOVERY PROCEDURES

Comment

The City does not have a well defined, written disaster recovery plan. We strongly encourage management to develop and monitor the plan on a regular basis in the future. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing facilities.

Recommendation

We recommend that management develop a disaster recovery plan for all departments that includes, but is not limited to, the following matters:

- Location of, and access to, off-site storage.
- A listing of all data files that would have to be obtained from the off-site storage location.
- Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor or a service center. The agreement should be in writing.)
- Responsibilities of various personnel in an emergency.
- Priority of critical applications and reporting requirements during the emergency period.

TAILINGS

Comment

The City has a substantial number of unclaimed checks (tailings) within the bank accounts maintained by the Treasurer. A large portion of these checks are several years old and we are not aware of any established procedures that have attempted to resolve the reason for these checks that remain outstanding. The balance is not reconciled to the amount carried on the general ledger. The lack of controls and procedures places the City at risk that funds could be misappropriated.

Within Chapter 46, Section 108 of the Acts of 2003 "An Act Providing Relief and Flexibility to Municipal Officials" is a section that improved the law regulating abandoned property. This section was written with the intention to make it easier for Treasurer's to process uncashed checks which have been deemed abandoned to either return the funds to the owner or to the City's general fund.

Recommendation

We recommend that the Treasurer's office implement Chapter 46, Section 108 of the Acts of 2003 for tailings. As part of the implementation plan, the Treasurer should continually monitor and investigate all outstanding checks greater than three months old. These balances must be periodically reconciled to the general ledger.

CREDIT BALANCES IN RECEIVABLE LEDGERS

Previous Comment

The Collector's detail real estate and personal property tax receivable ledgers included a significant amount of credit balances in receivables. These balances can come from a variety of different transactions including mispostings of receipts, overpayments and abatements not recorded properly. Historically these balances have not been investigated and many have remained for years.

By not adjusting these amounts the total receivable previously reported was understated and the potential liability for refunds was understated. The lack of following proper reconciliation procedures increases the possibility for misstatement either through error or a misappropriation of funds.

Continuing Recommendation

We recommend that Collector analyze the components of the credit balances to determine if the amounts were created due to mispostings or overpayments. All mispostings need to be corrected in the detailed ledgers. The remaining amounts should be either refunded to the taxpayer or considered abandoned property where it would be treated similar to the tailings above.

INFORMATION TECHNOLOGY AUDITOR

Comment

We believe that an IT auditor could play a vital role in ensuring that appropriate financial and operational controls are included in future IT systems, such as MUNIS. The IT auditor could provide a valuable internal control function by periodically testing systems controls to determine that they are effective and have not been circumvented.

Recommendation

We recommend that the City consider establishing an IT auditor position within the internal audit division or outsource this function to a qualified independent consultant. The role and responsibilities of the IT auditor should be formally defined and communicated to IT management as well as other affected user departments. The IT auditor should meet regularly with IT department representatives, user personnel and relevant contractors during developmental projects to ensure that proper financial controls and audit trails are included in each new or modified system. These meetings would allow the IT auditor to ensure that applicable, cost beneficial controls are included in each system. The meetings would also help the IT auditor develop auditing approaches by increasing his or her understanding of the controls being adopted. We recommend that the IT auditor establish a formal, ongoing program of tests to be conducted.

REVIEW DORMANT BALANCES AND CARRY FORWARD ENCUMBRANCES

Comment

In the normal course of our audit procedures we reviewed the activity and balances in the City's special revenue and capital project funds. It appears that there are a significant number of funds with little or no activity and some with substantial balances. Experience has taught us that many of these funds are the remainder of a project or grant that was completed. We are not aware whether any City finance staff periodically reviews these balances and provides a report to the Mayor and City Council.

We reviewed the encumbrances carried forward to FY2009 and found a significant number of encumbrances are over one year old. We also reviewed the status of these open purchase orders in December 2008 and found a significant number not used. Annual appropriation can have encumbrances carried over for one year and if they are not used, must be closed to fund balance. In addition, the purpose of an encumbrance is to hold open the appropriation for a limited amount of time to pay for goods or services where the invoices were not received at the time of the last fiscal year warrants. They should not be used as multi-year blanket appropriations.

Recommendation

We recommend that the Director of Municipal Finance have his staff perform a review of all special revenue, capital projects and trust funds. A report should be completed that identifies the purpose of the fund; the balance remaining; the activity for the last three fiscal years if it appears inactive; the proposed disposition of the funds; and if the fund is in a deficit position how it will be funded.

We recommend that the Director of Municipal Finance close any encumbrance carried forward from FY2007 and prior unless there was a Council vote to create a multi-year appropriation. He should also review any open purchase orders from the FY2008 appropriations and close any that are no longer valid. A policy should be established on what will be allowed to be encumbered and the approved list should be made available to the Mayor's Office and City Council at the end of each fiscal year.

MUNIS SOFTWARE TRAINING

Comment

Some of the City's key financial departments lack the necessary understanding to properly operate the new MUNIS financial management system. As a result, many of the efficiencies of this more sophisticated and modern system have not been achieved.

Recommendation

We recommend that key personnel in the Treasurer/Collector and Assessors Offices obtain additional training in the use of the new Munis system. This will facilitate the re-establishment of accurate and timely financial records, and reconciling procedures.

Quincy College

Update to Prior Year Material Weakness

The following comments and recommendations were reported as material weaknesses in prior year Management Letters addressed to the City of Quincy, Massachusetts. Because of the significance of the matters involved, the comments are being repeated currently, with updated language inserted that explains the progress made by the College during Fiscal 2008 to resolve the matters.

QUINCY COLLEGE CASH ACCOUNTS

Original Comment

In fiscal 2007, the City and the Quincy College cash accounts remained unreconciled until several months after year-end. This resulted in a major breakdown in internal controls and created a situation whereby errors or irregularities, which could be material to the College, could have occurred and not been detected.

Prior Year Recommendation

It was recommended that the College and City Personnel take steps to reconcile cash with the City Treasurer and City Auditor on a monthly basis. This should be completed within four weeks of each month-end and should be documented on a form, signed by the College's Vice President of Finance, the City Treasurer, and the City Auditor.

Current Status

The College hired a staff member during Fiscal 2008 whose job duties include the oversight and preparation of monthly cash reconciliations between Jenzabar (the college's accounting software) and bank accounts held in custody by the City Treasurer on behalf of the College. While reviewing year end cash reconciliations we noted that there were initially certain differences between the College and the bank statements that appear to be the result of disagreements between management of the College and the City Treasurer concerning bank interest allocations and tailings. In accordance with Massachusetts General Law, it appears that the City has been transferring certain bank interest earnings on College accounts and outstanding checks to a tailing liability. In order to agree cash balances per Jenzabar to the bank statement, the financial statements of the College include approximately $123,000 as an amount due from the City of Quincy.

In conjunction with our overall audit of the City of Quincy we have been able to determine that the overall variance in cash between Jenzabar and MUNIS (the City's accounting software) and the Treasurers cashbook is roughly $84,000. For the Fiscal 2008 period management has been unable to present us with formally documented and accepted monthly reconciliations between the City and the College. Because of the lack of reconciliations we are unable to determine the true nature of the cash variance and how this may be affecting the overall presentation of the College's financial statements.

Current Recommendation

The City is the official custodian and recording entity of cash transactions affecting the College. Also the College and the City are in current discussions that may result in the College becoming an entity that is separate from, and unaffiliated with, the City. Our understanding of current separation discussions indicates differing views on the part of management of the City and of the College concerning the final disposition of the College cash accounts maintained by the City. To eliminate confusion and unintended consequences at the time of separation we feel that it is imperative that monthly reconciliation between the College, the City Treasurer and the City's Director of Municipal Finance be documented and formally accepted by the respective parties.

Management Response

QC is in touch with the city to work on a cash reconciliation schedule. QC recognizes the importance of reconciliation and is aware that monthly cash reconciliation is often delayed by up to two or three months. Since our copies of bank statements are directed to the city, we have requested that the city's Director of Finance ask the banks to send us a copy when it sends the original to the city so that delays are minimized. We have also asked the city and our banks to provide electronic access to all our bank accounts.

Since July 2007, the college has been reconciling it bank statements with its books (Jenzabar – JZ) regularly. As of September 30, 2008 the difference between cash on the college books (JZ) and the city Treasurer's Cash balance for Quincy College in MUNIS (the city system) was $752,610.91. $749,293.12 of this difference was due to the timing difference in postings by the city. The remaining difference, $3,317.79, which is due to city initiated transactions and a very old difference, is not significant.

With the reorganization of the city's financial departments, we have initiated an active dialog with the new Director of Finance which we believe will ensure better/immediate communications regarding city initiated transactions so that we can analyze and record them in the college books (JZ). We have also communicated our willingness to the city to write off old variances in the college books.

With the institution of bank statement copies coming directly to the college, we hope to maintain more timely reconciliations of our bank statements to our books. We will also continue to work with the city to coordinate more timely postings so that reconciliations with the city's MUNIS system can be done on a monthly basis.

STUDENT ACCOUNTS RECEIVABLE

Original Comment

The College's policy requires students to pay for new courses at registration. Enrollment Services had not utilizing the student accounts receivable ledger to check on the students' old outstanding account balances. Some students had receivables on their account due to changes in financial aid awards, bounced checks, and errors in payments or charges. It was noted that the Business Office placed holds on these accounts so that the student could not graduate or receive any other services until the balance was cleared.

Prior Year Recommendation

It was recommended that the College maintain the student accounts receivable ledger so that Enrollment Services could use it to monitor and collect various outstanding receivable balances without having to send the student to the Business Office to research the balance.

It was also recommended that the College hire a full-time person for the following reasons:

- reconcile the student accounts activity on a daily basis;
- review procedures for applying charges, payments, and corrections to student accounts to ensure the accuracy of student accounts and receivables;
- evaluate computer controls over transactions;
- implementing timely reconciliations of student accounts receivable.

Current Status

Personnel within the Business Office and Enrollment Office are in regular communication to ensure that student account information is accurate and being reflected timely to cashiers in the Enrollment Office. The Senior Director of Accounts and Finance reviews daily reports that matches courses charged to student accounts with the actual payments applied to the student accounts. The expectation is that accounts will come to zero at the end of each day and any variance is investigated. Such investigation usually results in the identification of anticipated financial aid or third party payments.

Discussions with the Senior Director indicate that daily reports are proving to be useful and accurate; however, differences exist between information on these reports and information maintained in Jenzabar. It appears that Jenzabar is calculating a student account receivable amount for accounts that have been settled or written off in prior years. Such accounts have been adequately reserved in the financial statements.

Recommendation

We do not consider the aspects concerning the reporting of student accounts receivable to be a material weakness. However, we recommend that the College identify the accounts in Jenzabar that do not agree with reports generated from the AS400 computer system. The receivable balance in Jenzabar should be adjusted to an amount that closely resembles what will actually be collected in future years.

Management Response

Quincy College is working with a consultant from Jenzabar to resolve AR aging issues. The problems have been identified and we have every reason to believe that our trial balance will match our aging report. Quincy College is also upgrading its administrative computer system which should resolve this issue for the long term. Historically, Quincy College does not write off the student's accounts receivables unless there are well documented reasons.

COMPUTER SYSTEM REPORTS

Original Comment

In prior years it was noted that the College did not possess an accounting system that would allow for the production of a computerized balance sheet and income statement with which to track financial operations. In order to prepare financial statements that were ready for the audit the accounting staff needed to rely on the knowledge of the IT personnel to generate necessary reports. It was also noted that several versions of the trial balances needed to be generated for the audit as the first attempts did not balance. Preparing and reviewing interim financial results is a key management control in ensuring that the College operates within its approved budget; however it was apparent that the accounting personnel was unable to produce such reports.

Prior Year Recommendations

It was recommended that the College produce a computerized budget vs. actual report during the year, so that they can track their financial performance. A further recommendation indicated that the accounting records be converted to a system of capable of providing critical general ledger and financial statements reports.

Current Status

The College hired a Senior Director of Accounts and Finance to oversee the financial reporting aspect of the College. Since the hiring, the College has been able to present monthly budget to actual comparison reports to interested parties.

Prior to being able to produce budget to actual reports, the Director researched past financial transactions recorded by prior management and consulted with the Jenzabar software vendor in an effort to ensure the functionality of the accounting system. The efforts undertaken during the year allowed for a timely and clean year-end close.

Because of inherent limitations of the current accounting software, we learned that the monthly and year-end financial statements require that data be extracted from Jenzabar into a spreadsheet software program for further reclassification into the various financial statement categories. We have been able to determine that the manually prepared spreadsheets agree to Jenzabar; however, having to rely on this procedure lengthens the time needed to prepare and verify the completeness of the financial statements.

Current Recommendation

We have learned that the Director has been involved with researching and recommending certain upgrades to the existing software application. We recommended that the College make the necessary efforts to match the current and future needs of the College with currently available technologies. The accounting system should be designed to allow for the full integration of the major operating and financial reporting areas of the College. The system should also be designed to minimize the need for external software to produce financial statement reports.

Management Response

Quincy College is investing in a college-wide upgrade of its computer system within the next six to eight months. The detailed plan for the upgrade is in process and the "go live" date is January of 2010.

Update to Prior Year Significant Deficiencies

The following comments and recommendations were reported as significant deficiencies in the prior year Management Letter addressed to the City of Quincy, Massachusetts. Because of the significance of the matters involved, the comments are being repeated currently, with updated language inserted that explains the progress made by the College during Fiscal 2008 to resolve the matters.

CONSIDER HIRING FINANCE/COMPTROLLER PERSONNEL

Original Comment

It was noted that the College hired a financial consultant to assist in reconciling the trial balance at year end but was unable to reconcile key general ledger accounts and prepare the financial statements. A recommendation was made the College hire someone with strong accounting expertise to ensure timely balance sheet reconciliations and preparation of monthly financial statements.

Current Status

As noted previously, the College has hired the Senior Director of Accounts and Finance who, in our estimation, possesses the necessary skills to ensure a sound financial reporting foundation. We consider this matter to be resolved.

IMPROVE RECORDING OF AND DOCUMENTATION OF JOURNAL ENTRIES

Original Comment

It was noted that the College had not recorded necessary journal entries on a routine basis and that there was a lack of sufficient supporting data for any journal entries that were booked. Reviews of posted journal entries indicated that they were recorded to balance cash accounts with related bank statements. This created a situation in which errors or irregularities, which could be material to the College financial statements, could occur but not be detected.

Prior Year Recommendation

It was recommended that the College post procedures for the posting of month-end reconciling journal entries. These entries should be approved by the College's Vice President of Finance and posted to the general ledger by the accounting staff.

Current Status

We were able to confirm that all audit adjustments from the prior year have been recorded. While auditing certain balance sheet and income statement areas we were able to review, upon request, system printouts of certain journal entries affecting the accounts that we inquired about. Only through discussions with management were we able to ascertain the reason for the entry.

Journal entry documentation needs to be maintained in a manner that will allow an independent, financially aware, person be able to readily determine why the entry was recorded or to determine how the journal entry amount was formulated.

Current Recommendation

We recommend that new documentation policies be developed in a manner that will allow independent, financially aware persons to understand the need for the entry. In conjunction with the upgrade to a new accounting system we further recommend that the College ensure that the system include audit trails are easily maintained and produced for independent review.

Management Response

All Journal Log entries are filed in a chronological/sequential order together with their supporting documents. The audit team was provided with all the JLs that were investigated along with their supporting documentation, but this is a somewhat cumbersome system. Although the audit team didn't ask to examine the JL filing system, we will work on upgrading our system to make it more user friendly.

IMPROVE FINANCIAL REPORTING AND ACCOUNTING SYSTEMS

Original Comment

Several audit entries affecting beginning fund balance, legal expenditures, accounts receivable, deferred revenues, and fixed assets were recorded in order to bring the financial statements in agreement with Generally Accepted Accounting Principles.

Prior Year Recommendation

It was recommended that the College conduct monthly monitoring of its balance sheet and develop period-end closing procedures to improve financial reporting, instead of relying on the year-end audit to adjust balance sheet accounts.

Current Status

The current year audit resulted in only one audit adjustment concerning the accrual of an account payable. Discussions with management and a review of documentation in the business office indicated that this was the result of an error rather than the result of misapplication of accounting principles. Management has no disagreement with the audit adjustment. We consider the prior year matter to be resolved.

OTHER MATTERS

FRAUD RISK ASSESSMENT

Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the College perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the College's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the College that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the College its environment, and its processes. The fraud risk assessment process should consider the Colleges vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.

- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.

- What assets of the College are susceptible to misappropriation?

- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?

- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.

- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

Management Response

Quincy College will undertake and document an annual Fraud Risk Assessment.

SEGREGATE PAYROLL DUTIES TO STRENGTHEN INTERNAL CONTROLS

Comment

Our review of the College payroll system indicates that the process of hiring, payroll processing, and benefits administration falls under the control of the Executive Director of Human Resources. While it is common for one department to control hiring and employee benefits it not a desirable control element to have the same department in charge of all 3 areas. In the current operating environment, the payroll is disbursed and reviewed by the City of Quincy, prior to entry into MUNIS, and further reviewed by the College business office prior to posting to Jenzabar. However, as the College proceeds down the path to independence and charts a growth strategy that could result in an increase in staff there may be a need for more complex human resources structure.

Recommendation

We recommend that the College explore scenarios in which the payroll processing function be established separately from the existing structure.

Management Response

Quincy College is in the process of hiring a new CFO. In light of pending separation and other systemic changes, the new CFO will make appropriate changes to the payroll process, functions, and placement to strengthen internal controls for our payroll system.

ESTABLISH A FULL SCALE TREASURY FUNCTION

Comment

The College currently operates as a department of the City of Quincy. A benefit of such a relationship is that there is a treasury mechanism in place to handle areas such as cash disbursements, maintaining and establishing banking relationships, development of investment strategies, and negotiation and maintenance of debt agreements and debt facilities.

Under current conditions, the College will be left without a treasury mechanism upon separation from the City. Implementing a treasury function is something that requires extensive thought, analysis, and planning and is not an area that is easily implemented. Management needs to consider whether the current organizational structure will need to be adjusted so as to avoid possible segregation of duty matters.

Recommendation

During the ongoing discussions, with consultants hired by the College to assist in the separation efforts, we encourage management to engage the consultants to include the financial operations of the College in the separation assessment. The ultimate goal should include the establishment of a defined timetable to ensure a timely and smooth transition from the current financial operations model to the new model.