



CITY OF HOLYOKE, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2020

TABLE OF CONTENTS

	Page
INTRODUCTORY LETTER	1
CURRENT YEAR ISSUES	
1. Improve Controls Over General Ledger Postings (Material Weakness)	3
2. Improve Timeliness and Accuracy of Cash Reconciliation Procedures in the Treasurer’s Office (Material Weakness)	3
3. Consider Long-Term Financial Plan for the Sewer Fund (Significant Deficiency)	4
4. Improve Controls Over Receivables (Significant Deficiency)	4
5. Maintain Adequate Time and Effort Documentation and Documentation of Pay Rates – Title I Special Education Cluster (Significant Deficiency/ Compliance Finding)	5
6. Improve Controls Over Student Enrollment Classifications – Title I Grant (Significant Deficiency / Compliance Finding)	6
7. Consider Establishing an OPEB Trust Fund	6
8. Perform Student Activity Fund Audits in Accordance with DESE Guidelines	6
9. Other Issues	7
PRIOR YEAR ISSUES	
10. Improve Controls Over Police Outside Detail Funds (Significant Deficiency)	8
11. Improve Timeliness of Trust Fund Cash Transfers	9
12. Improve Controls Over Disbursements – Title I Grant	9
13. Develop a More Formal Risk Assessment Process	10



To the Mayor and City Council
City of Holyoke, Massachusetts

In planning and performing our audit of the basic financial statements of the City of Holyoke, Massachusetts (the City) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City'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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Material weaknesses are noted in the table of contents and comment headings.

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies are noted in the table of contents and comment headings.

During our audit we also became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance, including those overseeing the financial reporting process, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

A handwritten signature in black ink that reads "Melanson".

Greenfield, Massachusetts
October 6, 2021



CURRENT YEAR ISSUES

1. Improve Controls Over General Ledger Postings (Material Weakness)

While some improvements have been made, there continues to be a significant number of journal entries, mainly related to receipts, posted to the general ledger based on activity in the Treasurer's cash book rather than on source documents such as departmental turnovers.

We continue to recommend the general ledger and Treasurer's cash book be maintained independently and then reconciled to each other on a monthly basis. In addition, when City Departments turn over money to the Treasurer, a separate copy of the signed turnover form should also be given directly to the City Auditor. This will result in more reliable financial information and reduce the risk of undetected errors or irregularities.

2. Improve Timeliness and Accuracy of Cash Reconciliation Procedures in the Treasurer's Office (Material Weakness)

The City continues to have difficulty performing timely and accurate bank reconciliations, as made apparent by the delay in obtaining the reconciliations for the audit and the types of reconciling items between the bank statements and cash book for the most active bank accounts. Reconciliation of the Treasurer's cash is a critical internal control procedure necessary to ensure that the City's cash balances are properly reported and controlled. Without an adequate measure of checks and balances, there is also an increased risk that errors or irregularities could occur and go undetected.

We recommend the City resolve all reconciling items between the cash book and bank statements by the 30th of the month following each month end. Implementation of this recommendation will ensure a full, accurate, and timely reconciliation of the City's cash balances.

3. Consider Long-Term Financial Plan for the Sewer Fund (Significant Deficiency)

As noted in prior years, the results of operations in the sewer fund have been trending negatively over the last several years and have required substantial contributions from the General Fund (GF) over the years. The following summarizes net income/(loss) for the last eight fiscal years:

<u>Fiscal Year</u>	<u>Net Income/ (Loss)</u>	<u>Less: Transfer from GF</u>	<u>Results of Operations</u>
2013	\$ (1,066,341)	\$ -	\$ (1,066,341)
2014	(486,298)	(967,786)	(1,454,084)
2015	534,536	(1,208,425)	(673,889)
2016	(342,602)	-	(342,602)
2017	(376,320)	(773,804)	(1,150,124)
2018	(1,005,655)	(670,166)	(1,675,821)
2019	2,659	(353,690)	(351,031)
2020	(286,889)	(35,092)	(321,981)

While we understand the City Council/Sewer Commissioners have approved a rate increase and there is a currently budgeted structural deficit to be funded by general fund operations in fiscal year 2021 of approximately \$1.5 million. We continue to recommend an annual review of these rates for adequacy and consider establishing a five-year financial plan. This plan should include the extent to which user charges may need to increase in order to finance sewer operations and capital improvements on an ongoing basis.

4. Improve Controls Over Receivables (Significant Deficiency)

As also noted in prior years, our review and testing of the City’s detailed receivable balances found several areas where improvements are needed:

- Reconciliations between the Collector’s detail and control balances are not performed on a monthly or quarterly basis.
- Real estate receivables reconciled between the general ledger and the Collector’s control accounts, but neither reconciled to the Collector’s detail. Differences varied by levy year, but overall, the detail accounts were approximately \$(650,000) lower than the general ledger and control accounts.
- Sewer user charges and sewer tax lien receivables in the general ledger could not be reconciled to the Sewer Department’s detail records. The general ledger was approximately \$91,000 higher than the sewer user charges detail and \$234,000 higher than the tax lien detail.

- Parking ticket receivables were not recorded in the City’s general ledger and consequently were not reconciled to the detailed balance due reports. In addition, commitments and abatements were not provided to the City Auditor’s office for inclusion in the general ledger. Control totals were not maintained or reconciled to the detailed outstanding list or general ledger. This significantly increases the risk that errors or irregularities related to parking ticket transactions may occur and go undetected.

We recommend the City record and reconcile all receivable balances in the general ledger to independently maintained detail records on at least a quarterly basis.

5. Maintain Adequate Time and Effort Documentation and Documentation of Pay Rates – Title I/Special Education Cluster (Significant Deficiency/Compliance Finding)

Federal grant recipients are required to maintain Federally compliant documentation to support time and effort of employees working solely or partially on Federal grants. These records must be maintained in accordance with Federal cost principles (Uniform Guidance), and must, in some documented fashion, provide evidence that the time charged to Federal programs represents the time actually spent on that grant function by the employee. For employees who work partially on grant activities, time logs can be prepared and must be signed by either the employee or a supervisor knowledgeable of the work performed by the employee. For employees who work solely on grant activities, semi-annual certifications can be prepared and also must be signed by either the employee or a supervisor knowledgeable of the work performed by the employee.

During testing of time and effort documentation related to the employees charged to the Title I and Special Education grants, we found that semi-annual certifications were prepared for all fourteen employees tested for fiscal year 2020, however, they were both signed in January 2021. Certifications should be prepared and approved on a semi-annually basis.

In addition, during our testing of payroll transactions charged to the Title I grant we noted three instances where the School Department was unable to provide us with documentation to support rates of pay for employees who were considered off-step. Since documented rates of pay are not easily accessible, there is an increased risk of errors or irregularities occurring and going undetected.

We recommend the City amend their processes and documentation to comply with time and effort requirements in accordance with applicable Federal guidelines. We also recommend the School Department create an employee payroll status form in order to document employee rates of pay, the reasons for payroll changes, and approval by an appropriate official, such as the Superintendent or Business Manager.

6. Improve Controls Over Student Enrollment Classifications – Title I Grant (Significant Deficiency/Compliance Finding)

The City must report graduation rate data for all public high schools using the 4-year adjusted cohort rate under 34 CFR section 200.19(b)(1)(i)-(iv)). To remove a student from the cohort, the City must confirm in writing that the student transferred out, emigrated to another country, or is deceased. To confirm that a student transferred out, the City must have official written documentation that the student enrolled in another school or in an educational program that culminates in the award of a regular high school diploma.

As also noted in the prior year, in testing controls over, and compliance related to student enrollment classifications required under the Title I program, we found that the City was unable to provide official written documentation to support the withdrawal of a student from the school system for six of the seventeen students selected for testing. There was also one instance where the documented support for the enrollment code did not agree with the enrollment status.

We recommend the City modify procedures to ensure that all required documentation to support the withdrawal of a student from the school system be retained.

7. Consider Establishing an OPEB Trust Fund

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which was replaced by GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in fiscal year 2018. This standard addresses other post-employment benefits (OPEB), including medical, dental, vision and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries. Currently there is no legal requirement to fund this liability; however, Legislation was passed (Chapter 218 Section 15 of the Acts of 2016) that significantly expanded and clarified the responsibilities of governmental entities in maintaining OPEB trust funds, including clarifying the criteria for accessing the fund's assets, providing investment options, and a custodial management framework (which supersede the original legislation passed in January of 2009).

While we understand the City has other financial priorities, we recommend the City consider adoption of the statute and implement a funding schedule to begin addressing this liability. Implementation of this recommendation will improve the City's ability to meet its future obligations and will be recognized favorably by outside agencies.

8. Perform Student Activity Fund Audits in Accordance with DESE Guidelines

In 2014, the Massachusetts Department of Elementary and Secondary Education (DESE) published audit guidelines for student activity accounts. These accounts, which are

established and administered under Chapter 71, Section 47 of Massachusetts General Laws, are required to be audited annually in accordance with DESE guidelines if they have annual activity of more than \$25,000. Student activity funds with less than \$25,000 must be audited once every three years.

The High School has more than \$25,000 in activity and an external audit has not been performed since 2016. An internal audit has never been performed.

We recommend the City conduct audits of the student activity funds in accordance with DESE timeframe and guidelines.

9. Other Issues

Current Year

Ensure Budgeted Amounts in General Ledger are Accurate

Budgeted revenue amounts in the Sewer enterprise fund did not agree with the amounts per the Tax Recap. Budgeted amounts in the general ledger were overstated by approximately \$260,000, making budget monitoring less effective. We recommend the City implement procedures to ensure that all budgeted amounts in the general ledger agree with City Council votes and/or the Tax Recap.

Review Old Real Estate and Personal Property Receivable Balances

The City still maintains receivable balances for personal property taxes dating back to 1995, real estate taxes back to 2001 and motor vehicle back to the 1970's. While the amounts are not material, if these receivables are not truly collectable, receivables and liabilities reported in the City's financial statements are overstated. Only amounts that are considered to be collectible should be shown on the City's financial records. Uncollectable accounts receivable should be abated by the Assessor's office. We recommend that these old accounts receivable be reviewed to determine the likelihood of collection. If they are deemed uncollectable, we recommend that the Assessor's be asked to abate them. This will ensure that the City's receivables are fairly stated.

Improve Procedures over Excise Tax Receivables

After excise taxes are sent to the deputy collector for collection the receivable balance is removed from the general ledger. However, occasionally, balances are paid directly to the Collector. When these receipts are recorded in the general ledger it creates a negative receivable balance. We recommend the City set up a process for the Assessor to re-commit the excise taxes collected subsequent to the write-off in the general ledger. This will ensure the City's receivable balances are fairly stated.

Prior Year

Review IT Controls

During our review of the City's financial software access controls, we found that the Tax Collector (who was at one time the Acting City Auditor) maintains and assigns rights to

change the user access roles in the City's financial software (Munis). This control should be transferred to a member of the IT Department or back to the City Auditor now that the position has been permanently filled.

Monitor Capital Project Fund Budgets

The City's general ledger reflects capital project funds which cross fiscal years. During our testing we found that the beginning of the year budget carryover amounts did not agree with the ending balances from the prior fiscal year.

We recommend the City properly track capital project fund budget carryovers based on the voted budget remaining, not just on open purchase orders.

Investigate Individual Fund Balances

In prior years, we recommended that the City review inactive special revenue, trust and capital project funds. While some clean-up occurred, there are still numerous special revenue and capital project funds with surplus and deficit balances that have not reported any activity in the past few years.

We continue to recommend that the City take action to dispose of or fund the deficits noted in the inactive special revenue and capital project funds.

Implement Regular Departmental Internal Audits

Currently, the City does not perform regular departmental internal audits. Internal audits compliment the annual independent audit and provide important oversight over departmental accounting records throughout the year.

We continue to recommend the City Auditor's office establish a schedule for periodic internal audits of the City's departmental accounting records. This will result in improved oversight and should reduce the risk of errors or irregularities from occurring and going undetected.

PRIOR YEAR ISSUES

10. Improve Controls Over Police Outside Detail Funds (Significant Deficiency)

The City's Police Department provides outside detail services for various purposes, the fees for which are billed and collected by the City. In accordance with a contractual agreement, the City pays the officers upon completion of the details, and not when the fees are collected. In addition, these receivables are not maintained in the City's general ledger or Collector records. As a result, there is no independent verification performed to determine whether all services have been billed and/or collected.

Because the City has already paid the officers, unpaid fees result in a deficit in this fund at year end of approximately \$(285,000). This deficit reduced the City's available free cash

and represents a negative cash flow to the City. In addition, due to the age of some of these balances, a portion appears to be uncollectible. The City would need to fund (appropriate money for) any balances determined to be uncollectible.

Because this deficit negatively affects the City's cash flow and could require the City to fund any true deficits, we recommend the City implement a process to ensure collection of outside detail fees outstanding. This process should include precluding officers from scheduling outside detail for companies, individuals, or organizations whose balances are in arrears. If these balances are deemed to be uncollectible, then the invoices should be written off and the deficit funded by the City.

We also recommend the receivable be recorded in the City's general ledger and reconciled to detailed balance due reports on at least a quarterly basis.

11. Improve Timeliness of Trust Fund Cash Transfers

The City's trust fund activity appears to be accounted for in the general ledger accurately; however, the ending general ledger balances do not agree with the Treasurer's trust fund cash balances. This is the result of trust fund cash disbursements being made from the City's operating funds and not being reimbursed in a timely or accurate manner.

Periodically, the Treasurer transfers money to or from the trust fund cash accounts to reimburse the operating cash account. These transfers were not made in a timely manner in fiscal years 2014 through 2020. As a result, as of June 30, 2020, the Treasurer's trust fund accounts were approximately \$350,000 less than they should have been.

We recommend that trust fund transfers be made in a timely manner and that trust fund cash balances be reconciled between the City's general ledger and Treasurer's records on a quarterly basis.

12. Improve Controls Over Disbursements – Title I Grant

As also noted in the prior year, during our testing of controls over the City's School department grant disbursements specific to the Title I, we found that the School department's Accounting Manager approves invoices related to all three grants. An individual responsible for the oversight and monitoring of the grant should be reviewing and approving invoices.

We recommend that all disbursements be properly approved by an authorized individual prior to payment. This will improve controls over disbursements.

13. Develop a More Formal Risk Assessment Process

The City informally performs its own risk assessment for possible fraud or material misstatement through various policies and procedures and regular reviews of trends in the financial statements. Risk assessment is a management function designed to identify where an organization may be vulnerable to errors and/or irregularities. A complete risk assessment process involves a written description of risk areas identified by those charged with governance (management and elected officials) and a description of how the organization intends on responding to the risks.

We recommend that the City implement a more formal risk assessment process that includes internal audits and written identification of areas where potential fraud or material misstatements to the basic financial statements may occur. Regular department head meetings could be used as a starting point for documenting risk assessment discussions and assessments.

In evaluating risk areas, particular consideration should be given to situations where a single employee is responsible for performing most or all accounting responsibilities, since this could create opportunities for fraud to occur and go undetected. The City should evaluate major transactional cycles in all applicable departments to ensure an adequate segregation of duties exists. If staffing levels do not permit an adequate segregation of duties, the City should provide additional oversight, which should include review and documented sign-off of the key accounting records.

We also recommend the City establish a formal employee fraud policy or consider establishing a fraud hotline to provide staff with guidance in the event they observe or suspect fraud in the workplace.

* * *

All other prior year issues have been satisfactorily resolved or modified and repeated as current year issues.