



**Powers &  
Sullivan, LLC**  
CPAs AND ADVISORS

***CITY OF SOMERVILLE, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2023***

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

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Somerville, Massachusetts, as of and for the year ended June 30, 2023, 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 opinions 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.

However, during our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

*Powers & Sullivan, LLC*

January 31, 2024

CITY OF SOMERVILLE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2023

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# ***PRIOR YEAR COMMENTS***

## **Compensated Absence Documentation**

### Prior Year Comment

In previous management letters we noted, the City operates a decentralized payroll time tracking system. Department heads maintain the accounting for their employees' use of sick and vacation time. At year end, this information is sent to the payroll department for review of employee pay rates and is subsequently submitted to the City Auditor's Office for compilation of the liability in accordance with the various union contracts.

The present system does not minimize the risk that time earned and taken will be recorded properly. Currently, there is no defined policy of when and how an employee reviews their bank of sick and vacation time to verify the integrity of this information. Employees' paystubs report if any sick or vacation time has been used in the current period but does not reflect an employees' available bank of sick and vacation time available.

### Recommendation

We recommended that management develop a policy regarding the use and tracking of sick and vacation time. Also, the use of a time and attendance system that would integrate with the MUNIS payroll system could be an efficient and effective way to account for and track sick and vacation time accruals.

### Current Status

The HR Department is working on updating accruals for all departments in the HR system. We will be working with each department to obtain the information required to correctly update the system. We are rolling this out one department at a time. This process has started and will continue through FY24.

## **Purchase Orders Dates**

### Prior Year Comment

In previous management letters we noted, during expenditure testing, that a number of purchase orders were dated past their corresponding invoice dates. Creating purchase orders after the invoice is received bypasses the City's purchasing policies and defeats the control that a purchase order system is intended to provide. Purchase orders play a primary role as they allow the City to ensure that budgetary funds are available and that the purchase has been properly approved before funds are expended.

### Current Status

During expenditure testing in 2023, we noted two instances in which purchase orders were dated after the invoice date. This was a significant improvement from prior years. We deem this comment to be resolved.

## **Payroll Overpayments to Employees**

### Prior Year Comment

In previous management letters we noted errors in the payroll process that has caused employees to be paid for time not actually worked. Each department is responsible for submitting payroll information to be used in generating the current payroll warrant. There is currently no centralized system for validating the information submitted by each department.

It appears that various errors in validating the payroll information are occurring at the department level prior to the information being forwarded to the Payroll Department for processing. At times it looks as if prior week schedules of hours worked have been rolled to be used for the current period without a process to confirm the hours worked are correct.

This leads to a situation in which the City could be paying more in payroll and payroll taxes than is necessary and ultimately must expend resources to track the impacted employees down and work to recover any overpayments.

### Recommendation

We recommended that the City work to implement a centralized payroll process and implement procedures that would allow for the proper validation of information submitted by the Payroll Department prior to running of the payroll warrant.

### Current Status

The City payroll office is working with the individual departments to create a centralized system for validating payroll information provided by departments so that the risk of overpayment is reduced and the correct payroll expenditures can be placed on the warrant.

## **Benefits Withholdings**

### Prior Year Comment

In previous management letters we noted, during a review of the City's withholding accounts, several balances within the benefits withholding accounts that did not change from the prior year. While immaterial to the overall financial position of the City, having no activity in these accounts indicates that the City is not utilizing these accounts properly and the balances within these accounts are not correctly stated. If liability accounts are deemed to be invalid, the closing out of these accounts would increase the free cash of the City.

### Recommendation

We recommended that the City work to implement processes and procedures to assist the City in reconciling the amounts being withheld from employees each payroll to the general ledger liability accounts to assure the correct amounts are being withheld.

### Current Status

The HR Department is reviewing the City's payroll process and plans to implement processes that will allow the City to reconcile the amounts being withheld from employees each payroll to the City's general ledger.

## **Somerville Contributory Retirement System – Member Enrollment Forms**

### Prior Year Comment

When an employee enrolls in the Somerville Contributory Retirement System (System), a new member enrollment form is completed and turned over to the System. A section within that form titled "to be completed by payroll/personnel department and verified by the Retirement Board" contains information such as contribution rate, regular compensation per pay period, dates of birth, employment status, and is signed by an authorized payroll department signatory. Furthermore, there is an additional section titled "to be completed by the Retirement Board" which contains information such as membership date, annual regular compensation, deduction percentage, and group classification.

While testing the Town's census data that supports the Town's calculation of the net pension liability we noted that 58% of the active employees tested did not have fully completed member enrollment forms in their file.

The receipt of the completed member enrollment form is a critical piece of information to assure that a new employee is properly setup in the Retirement System records and helps to validate the payroll and deduction information being used to calculate employee contributions, as well as dates of hire and other information used by the System to properly set up a new employee as a member of the System.

### Recommendation

We recommended that the City and the System work together to implement procedures ensuring that all new member enrollment forms are accurate and are completed in full and timely.

### Current Status

The System and the City's personnel/payroll department work together to ensure that the required information is completed at the time of hire on the new member enrollment forms. There is a process in place for the personnel/payroll department to obtain the information necessary to be filled out on the new member enrollment for which will then be sent to and reviewed/verified by the System. If the new member enrollment form is not fully completed, the System will return it to the City's personnel/payroll department for completion. Once the City information is completed and verified by the System, the System completes their portion of the form.

### **Department of Public Works – Prior Year Bills and Purchase Orders**

#### Prior Year Comment

During our review of the Department of Public Works (Department) and conducting expenditure testing of various bills paid, we noted several instances where the Department was required to have prior year bills approved for payment by the City Council. While it is common to see a few prior bills each year come to the City Council for a vote, these prior year bills were significant and totaled \$1,204,703. Having such a significant balance of prior unpaid bills impacts the ability of the City to properly manage its budget, reserves, and free cash. Unpaid bills can also create disruptions between the City and its vendors, where vendors could potentially no longer want to work with the City due to the length of time it takes the vendor to receive payment.

At the end of fiscal year 23, the Department turned back \$1.5 million of its overall expenditure budget. This indicates that the Department does not have a detailed process for job foremen and other employees to follow when the need to order or purchase goods or services arises. If a good or service has been committed to at fiscal year-end, the funds necessary to pay the vendors should be properly encumbered by submitting support to the City Auditor's Office. A formal process related to understanding when and how to order goods and services will assist the Department in having accurate information at fiscal year-end related to any commitments that must be encumbered for with the City Auditors Office.

We also noted instances where the Department created purchase orders related to the purchase of goods or services after the invoice was received from the vendor. This process bypasses the City's purchasing policies. Specifically, this circumvents the controls that the City's purchase order system is intended to provide such as ensuring that funds are available for the expenditure.

#### Recommendation

We recommended that a process be implemented that allows the Department to know what invoices have not been received and should be encumbered at fiscal year-end thereby reducing the need to go before the City Council for payment of prior year bills and not adversely impacting the City's certified free cash calculation at fiscal year-end.

We also recommended that the Department implement policies and procedures that all employees of the Department can follow regarding the proper use of the City's purchase order system when placing an order for goods or services.

#### Current Status

The Department and the City Auditor's Office are working together to limit the unencumbered prior year bills being paid in the subsequent year. The Department has also established internal purchasing procedures to ensure expenditures are being accounted for and purchase orders are created and encumbered, according to City policy.



## ***CURRENT YEAR COMMENTS***

## **Health Insurance Receivable**

### Current Year Comment

During our review of the Health Insurance receivable, we requested a detailed listing to support the account balance at year end. Upon request, we learned there is no detail maintained to support the year end balance. After reviewing prior year balances as well as discussion with City personnel, we noted a large portion of the outstanding balance that has not changed and has been carried for multiple fiscal years.

The lack of reconciliation procedures in place and the fact that old balances are being carried forward makes reconciling this account more difficult and time consuming.

### Recommendation

We recommend that the City compile a detailed listing by each individual to substantiate the balance. Once the true receivable amount is identified, the old unsubstantiated balance can be written off to accurately reflect the health insurance receivable.