December 7, 2021

Steve Poulos
Finance Director
188 Washington Street
Marblehead, Massachusetts 01945

Dear Steve Poulos:

CliftonLarsonAllen, LLP ("CLA" or "we") was engaged by you to perform consulting services for the Town of Marblehead ("you," "your," or "Town"). These services included performing a Finance Department Assessment, analyzing the Finance Department organizational structure, policies, and procedures, and interviewing staff, reviewing year-end close processes, examining finance system utilization and capabilities, and evaluating accounting technology and controls.

Executive Summary

We interviewed ten employees of the Finance Department and/or departments directly or indirectly involved with finance. In addition, we reviewed the financial system utilization and controls. Based on these interviews and our review, we offer you the following observations and recommendations for improvement, arranged by priority level:

Recommendations

High Priority:

1. Town-Wide Policies and Procedures

   Observation: The Finance Department does not have a formal set of written policies and procedures. Few departments that we spoke with, have formal written procedure manuals; the manuals that do exist are outdated. Formal written procedures help improve quality of work, reduce errors, and help new hires train and learn. Formal written procedures also booster internal controls.

   Recommendation: We recommend all departments produce formal written procedure documents that can be accessed on the Town's server, particularly for processes such as the accounts payable and payroll warrant process.

2. Finance Department Structure

   Observations:

   i.   The Finance Department is minimally staffed and serves as an operational hub for all other Town departments, performing services that include processing payroll, processing invoice payments, maintaining cash, collecting taxes and other revenues, administering employee benefits, hiring and onboarding, and providing all information technology ("IT") support. The Town may not have the capacity to shift

       personnel to areas in times of need, when one department might be less busy while another is busier than normal and needs assistance to perform essential Town operations.

    ii.   The Finance Department performs many roles but does not have a formal organizational chart that clearly denotes the responsibilities of each staff member in the Finance Department. This can create internal confusion about roles and responsibilities, which can lead to tasks going uncompleted for long periods of time; see the reconciliations observations in #4 to follow.

Recommendations:

    i.   We recommend the Town create an additional full-time equivalent ("FTE") in the Finance Department to function as a Financial Analyst that can act as additional capacity within the Department to respond to potential turnover, assist with initial documentation and maintenance of formal internal control policies and procedures, assist with reconciliations, and ad-hoc analysis. This position would ideally cross-train on crucial roles, such as payroll, to assist during times where workload is too large for the existing FTEs, to backfill vacant roles, or to cover for employees on leave. In addition, this role will allow for flexibility in regular projects like reconciliations, and limited-time projects like complying with COVID-19 grant reporting requirements. This should reduce Town funds spent on outside consultants and help to avoid fines.

    ii.   We recommend the Town formalize roles, responsibilities, and the organizational structure within the Finance Department.

3.   <u>Purchase Order Implementation</u>

Observations:

    i.   The Town does not use purchase orders. This is an internal control issue as purchases will be made without approval and/or invoices will be charged to account numbers where budget is available rather than the proper account number.

    ii.   The balances of contracts are tracked manually on paper and grants are tracked manually by administering departments on paper or in Excel. Manual tracking of contracts and grants can lead to errors such as projects being overspent, invoices applied to the wrong project, and human error.

   iii.   The School Department currently uses purchase orders, but they must be physically signed by the School Director of Finance. The approval process should be done electronically to ensure all steps are followed and there is an audit trail.

    iv.   School Department contracts must be approved and signed by the School Committee, Procurement Officer, Town Finance Director, Town Counsel (outside Counsel) and BOS (if a joint contract).

Recommendations:

i. We recommend the Town implement a purchase order process to ensure proper approval of costs before purchase is made. Implementing a purchase order procedure will bring an additional level of review and control over spending and allow for departments to have more ownership of their budgets.

ii. We recommend that at a *minimum* the tracking of contract and grant balances be done in Excel but would prefer budgetary amounts be entered into general ledger for tracking.

iii. We recommend limiting the required signatures for a School contract to just the superintendent and/or Town Administrator, without needing the approval of the full Board of Selectmen and/or School Committee.

4. Reconciliations

Observation:

Reconciliations such as cash, accounts receivables, payroll, withholdings, and revenues are an important part of internal controls. They help ensure the various financial components and ensures processes are operating correctly. These must be done on a monthly or quarterly basis, depending on the reconciliation. The Town of Marblehead has not been performing these reconciliations in a timely manner. Errors can occur when reconciliations are not done in a timely manner, which can result in paying higher expenses than needed or penalties from federal agencies.

Recommendation:

We recommend incorporating formal, timely, reconciliations into the Town's formal policies and procedures on a monthly or quarterly basis.

5. Cash and Bank Accounts

Observations:

i. The Town does not utilize positive pay, which is an automated cash-management service used by financial institutions employed to deter check fraud.

ii. The Town currently has over 150 bank accounts, which makes the reconciliation process onerous.

iii. The Town has bank accounts with one bank that:

    a. Cannot provide an outstanding checklist, which is crucial to timely and accurate bank reconciliations.

    b. It was communicated to us that some Town employees will call the bank directly asking for current bank balances or whether a check has gone out, and the bank will supply them with the answer. This is an internal control issue, as only authorized signers on these accounts should have access and be provided such information.

Recommendations:

i. We recommend implementing positive pay, either at the current bank or utilizing another bank that will provide this service.

ii. We recommend consolidating the number of bank accounts. As we understand it, the Treasurer/Collector is discussing options as we speak to consolidate the reporting of the trust accounts.

6. Payroll Department Restructuring and Other Staffing Deficits

Observations:

i. There is currently one employee, the Payroll Manager, for the Town in the Payroll Department who processes payroll and manages employee data in Softright, including benefits and negotiates insurance contracts. By only having one individual in the department, no one within the department is there to review the payroll warrant in detail or employee information changes.

ii. There is no backup if the Payroll Manager is out.

iii. The School department has only one payroll staff, but they cannot enter employee changes or payroll into Softright.

iv. The Town and School both maintain employee record files for School employees, but it's different information; the Town mainly maintains payroll and new hire paperwork and the School maintains everything else. The School does not have access to the Town's payroll records.

Recommendations:

i. We recommend restructuring the Payroll department to ensure that proper segregation of duties is maintained, and levels of review are possible. We offer the following options:

   a. Re-establish the position of a payroll clerk to be responsible for entering information into Softright and processing payroll, with the Payroll Manager reviewing the employee information and payroll warrants, or

   b. Separate all human resource responsibilities (including hiring, onboarding, and processing employee changes) from the Payroll Department entirely and establish a Human Resources (HR) Department to hold those responsibilities, or

   c. Separate all payroll functions (processing payroll warrants, entering employee changes into Softright) from the Payroll Department, rename the Payroll Department the HR department, and bring the payroll functions into the Treasurer's department. Create a payroll staff FTE position in the Treasurer's Department, making sure to cross train other Treasurer's staff on payroll functions and vice versa, or

   d. Create one large Payroll group for both Town and School and add an FTE for additional support.

    ii.   We recommend the Town and School create one master employee record file with all pertinent information, accessible to the appropriate personnel in both Town and School.

7. <u>Information Technology (IT) Department Restructuring</u>

Observation: The Finance Director is also the IT Director for the Town and must respond to and solve any IT problems that might come up. This ranges from implementing new software to fixing servers to resetting passwords. The School Department currently has an IT Director in addition to six IT staff.

Recommendation: We recommend segregating the Town IT Director role from the Finance Director role and reallocate the responsibility elsewhere. We offer the following options:

    i.   Hiring a full-time IT staff member for the Town, who reports to the School IT Director, or

    ii.   Hiring a full-time IT Director for the Town who reports to the Finance Director, or

    iii.   Combine all IT functions of the Town and School into one department responsible for the entity-wide IT. This option may require the additional hiring of a full-time staff member.

8. <u>IT Hardware and Software</u>

Observation: The Town's computers still run Windows 7, for which all Microsoft support ended in January 2020. Continuing to use this operating system is a security liability. In addition, most, if not all, computers and other IT hardware are past the refreshment cycle. For example, the Town has one scanner used by most departments in the Mary Alley Municipal Building that is extremely slow, taking an hour to scan one document and is a major detriment to efficient work.

Recommendation: We recommend a refresh of computer software and hardware to close potential security risks and improve overall efficiency.

9. <u>Staff Training</u>

Observations:

    i.   The Town has not had a budget for trainings or seminars for some time, with the exception of a small budget for training coming up in fiscal year 2022. As a result, staff may be unaware of certain compliance requirements, which can lead to errors (e.g., 1099 eligibility).

    ii.   Procurement procedures are decentralized, which presents the opportunity that MGL Chapter 30B and other purchasing laws may not be followed 100%. Most departments don't have the proper training, which could lead to incorrect contracts and fines.

Recommendations:

i. We recommend incorporating more trainings for all staff as appropriate. This will get staff caught up on any certification requirements and compliance with state and national laws.

ii. We recommend that individuals in the Accounting Department receive training on who requires a 1099 tax form and that those processing the 1099 tax forms in Softright are properly trained to avoid errors.

iii. We also recommend a formal procurement procedure and training for department heads; the Office of the Inspector General (OIG) offers trainings and classes via the Massachusetts Certified Public Purchasing Official (MCPPO) program.

10. Softright Processes

Observation: Softright permissions should be assigned to users appropriately for employees to complete their tasks efficiently, but also maintain segregation of duties as needed. Specific instances of potential weakness we have noted include:

i. Softright will flag duplicate invoice numbers, but the Accounting Department can allow an invoice with a duplicate number to go through. There have been instances where invoices have been duplicated in Softright and paid twice.

ii. The Assistant Treasurer has access to employee maintenance in Softright.

iii. School payroll does not have access to enter any payroll information into Softright.

iv. School purchase orders are only available for the general fund and are not used to budget grants.

v. Purchase order numbers can be overwritten in Softright; this should be corrected so they cannot be edited.

Recommendation: We recommend the Town review Softright permissions and make sure they are assigned correctly. To address specific instances identified above, we recommend the following:

i. Implement a process where any invoices flagged as duplicates in Softright should be returned to the department for review.

ii. The Assistant Treasurer's Softright access to employee maintenance should be removed.

iii. The School payroll department should have the ability to enter information into Softright, requiring the Payroll Manager approval before those changes go live.

iv. Allow the School to create purchase orders in all funds, not just the general fund.

v. Remove access to change purchase order numbers from all users except the Town Accountant and School Finance Director.

Medium Priority:

11. <u>Record Retention</u>

    Observation: The records maintained by the Town are plentiful and go back decades, taking up an abundance of space. Record retention is a problem. The Town stores some very, very old document, some over 100 years old. The Treasurer/Collector wants to digitize records and clear out the backlogged paper.

    Recommendation: We recommend complying with the Massachusetts Records Retention Schedule Database best practices and digitizing records to not only clear space, but also provide easy access to older documents and records.

12. <u>Hiring, Onboarding, and Separation Procedures</u>

    Observations:

    i.   When hiring new staff, there is no involvement from Human Resources until onboarding. Department heads will review applicants, conduct interviews, and select the candidates, but they may not be familiar with the applicable laws and requirements or have had sufficient formal training in terms of what can or cannot be said and done during an interview. This could open the Town to potential lawsuits and the loss of good candidates.

    ii. The Town's onboarding process does not include conflict of interest training and there is no Personal Identifiable Information (PII) compliance policy. Benefits forms are not available to new hires until they come in person to fill out their paperwork.

    iii. When an employee resigns, retires, or is terminated, there is no formal policy or uniform process in place.

    iv. Many job descriptions have not been updated in many years and therefore could be out of date as compared the requirements in 2021.

    Recommendations:

    i.   We recommend a Human Resources staff member be present at high-level interviews. We also recommend creating and implementing formal hiring policies and procedures and have formal trainings for those involved in the hiring process (i.e., review of resumes, scheduling, interviews, etc.).

    ii. We recommend the Town adopt a town-wide policy and lay out a uniform process when an employee is hired or separating from the Town. For onboarding, this would include, but not be limited to, the process of completing and filling out I-9s, W-4s, benefits documents, retirement, CORIs (if applicable), employee handbook, information technology forms to access data. For separations, this could include exit-interviews, turning in Town assets, turning off access to information technology, and notifying benefit providers of the end dates of service.

    iii. There are several online platforms for advertising jobs, accepting and reviewing applications, scheduling interviews, hiring, and onboarding new hires that would create a uniform, centralized hiring process for the Town.

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    iv.   We recommend that the Town create and maintain job descriptions for each position at the Town. Job descriptions help ensure that both the individual in the position and the individual responsible for overseeing the position have clear expectations required of the job.

13. <u>Whistleblower Hotline</u>

Observation: The Town does not currently have a whistleblower hotline or employees to call or email when they believe fraud or unethical behavior is occurring. Fraud is most commonly detected through employee tips.

Recommendation: We recommend the Town set up a whistleblower hotline that would allow employees to provide tips without fear of reprisal from a coworker or superior.

14. <u>Student Activity Funds</u>

Observation: Student Activity Funds have not had a formal audit for years. Per MGL, Chapter 71, Section 47, "there shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education."

Recommendation: We recommend the Town perform an audit of the Student Activity Funds.

15. <u>Departmental Software</u>

Observation: Many departments use specialized software, which doesn't have the ability to transmit data to Softright, such as water/sewer collections and receipts taken from the Treasurer/Collectors Department. This leads to difficulty reconciling receipts and deposits, and in a few instances, Softright is missing information that was not brought over correctly. The Treasurer/Collectors use a software, Collector Pro, for collections instead of Softright, which has a collections module. Deposits are brought into Softright from Collect Pro on a summary level, not a detail level, making reconciliations even more difficult to trace.

Recommendation: We recommend using Softright's collection module instead of Collect Pro, for accuracy in recording receipts and deposits.

16. <u>Interdepartmental IT Contracts</u>

Observation: Some departments have "agreements" with the Finance Director that a portion of some IT related bill are to be covered by the Finance Department. For example, one department will purchase a software, then ask the Finance Director/IT Director to cover 50%, since it's software. This leads to situations where the IT Department receives a bill they need to cover, but they were not expecting, which can lead to underbudgeting and overspending in the IT Department.

Recommendation: We recommend that all these agreements be formally documented or that all IT related bills be budgeted as part of the IT budget.

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Low Priority:

17. <u>Vendor W-9s</u>

    Observation: Some vendors have been in Softright for many years and do not have an up-to-date W-9 on file.

    Recommendation: We recommend the Town request all active vendors send in a current W-9.

18. <u>Payroll Schedule</u>

    Observation: Town and non-teacher School employees are paid on a weekly basis. Teachers are paid biweekly.

    Recommendation: We recommend the Town eliminate all weekly payroll runs and schedule the biweekly payrolls so that all Town is one week, and all School is the next week.

19. <u>Fixed assets</u>

    Observation: The Town utilizes an Excel spreadsheet to maintain their fixed asset listing. Using Excel to maintain the list is not necessarily secure and has a higher chance of error. Additionally, depreciation is not being calculated

    Recommendation: We recommend the Town purchase and utilize a fixed asset tracking software to maintain the fixed asset listing.

20. <u>Payroll Checks</u>

    Observation: Numerous employees still receive manual payroll checks. Manual checks are inefficient, have a greater chance of being lost and will increase the number of outstanding checks at the bank. New hires are required to be direct deposit, but prior employees have been grandfathered in from being forced to switch.

    Recommendation: We recommend that all payroll checks be paid via direct deposit.

21. <u>Garnishments</u>

    Observation: The Accounting Department processes wage garnishments (e.g., child support) and the Treasurers Department enters them into Softright.

    Recommendation: We recommend garnishments be processed and entered into Softright by the personnel responsible for all other payroll deductions.

Additional Information

22. All School and Town employees are required to complete a pre-employment physical, even for roles in office settings. It is unclear why this requirement was set; some personnel believe it's from an outdated MIIA requirement, others believe it was related to worker's compensation. CLA has not seen this requirement in other municipalities; typically, it's only needed for employees who will be doing more physical labor, such as DPW, police, or fire department employees. The Town must pay for all these physicals. It might be worthwhile to revisit this requirement and determine if it is necessary.

23. The School Director of Finance cannot enter journal entry adjustments or budgetary adjustments in Softright. All forms, support, etc. must be provided to the Accounting Department for processing. All entries are being properly reviewed, but we recommend the Town allow the School Department to enter journal entries and budgetary adjustments, then the Town Accountant can review and post. Entries posted by the Town Accountant are not reviewed, we recommend a review by the Finance Director.

Conclusion

If there is any assistance CLA can provide to help implement any of our recommendations, we would be happy to discuss further. We thank the Town for the opportunity and the employees for their cooperation, time, and willingness to be part of this project.

Engagement Limitations

The scope of our work is limited, and does not include an audit, examination, review, or compilation of financial statements as those terms are defined in standards promulgated by the AICPA, and accordingly we express no such opinion on the financial information or other information we received in the course of our work.

Additional information may become available to us. In addition, we may be asked to consider additional information and comment on that information relating to this matter. Consequently, we reserve the right to revise our report after consideration of any such additional information.

This report is prepared in connection with the aforementioned matter and should not be used for any other purpose.

Respectfully submitted,

Hannah York, CPA, CGA
Principal