

**CAMBRIDGE REDEVELOPMENT AUTHORITY**

MANAGEMENT LETTER

DECEMBER 31, 2014

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YEAR ENDED DECEMBER 31, 2014**

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Honorable Board of Directors  
Cambridge Redevelopment Authority  
Cambridge, Massachusetts

In planning and performing our audit of the financial statements of the Cambridge Redevelopment Authority, (the Authority) as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

*Roselli, Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
December 16, 2015

## **I. OVERVIEW**

Fiscal year 2014 represented the Authority getting “back to business” after a few years of completely rehiring all personnel, restructuring certain aspects of the Authority’s operations, and getting back into putting redevelopment projects in place and moving forward.

During the fiscal year ended December 31, 2014, the Authority’s net position decreased about \$859,000. This was primarily the result of revenues only being supported by only about \$120,000 with expenses totaling about \$976,000. Revenues were down nearly \$700,000 as the Authority did not recognize any revenue from the sale of developer rights in 2014, so operations had to be funded through previously accumulated financial resources. Expenses increased about \$145,000 over the previous year as a result of a full-year of employee payrolls and the increased project based expenses. Such a low revenue and high expense result from annual operations is anticipated to occur throughout the life of the Authority, which is why it remains imperative that strong fiscal management and planning of when those resources will be received and expensed remains a key element of the Authority’s operations.

One very significant change in the Authority’s financial reporting for 2014 involved the implementation of GASB 68 which effectively made the Authority recognize the value of the net pension liability that exists for all former Authority employees and the accumulated value of the pension liability associated with current employees. This resulted in the Authority recognizing a new liability of nearly \$79,000 on its financial statements as of December 31, 2014. We would also note that implementing this GASB requires obtaining portions of reports issued by the Cambridge Retirement System via their auditors; therefore, the Authority’s audited financial statements cannot be completed or issued until the Retirement System reports are finalized and available to the Authority. As this was the initial year of implementation, the Retirement System reports were delayed as they worked to implement the various nuances of the GASB required reporting, which in turn delayed the issuance of the Authority’s audited financial statements as well. Such delays are not anticipated in future years.

This letter to management is intended to provide the Authority and its management with recommendations for improvement in accounting and financial operations and informational items. The Authority should review these recommendations and informational items, and, if determined to be cost-effective, implement these improvements.

## II. INFORMATIONAL ITEMS

### *Statement on Auditing Standards No. 115 – Audit Communications*

The American Institute of Certified Public Accountants (“AICPA”) in 2009 issued Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (“SAS 115”). SAS 115 establishes new standards and provides guidance on communicating matters related to an entity’s internal control over financial reporting identified in an audit of financial statements. In particular, SAS 115 provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements in the following order of increasing severity:

1. Deficiency in internal control
2. Significant deficiency
3. Material weakness

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance. *Deficiencies in internal control* are not required to be communicated; however, we have chosen to also report that type of deficiency in this report.

We did not deem any of the findings in this report to be categorized as (2) or (3) above.

### *Other Postemployment Benefits*

Governmental Accounting Standards Board (“GASB”) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 45”) requires communities to recognize in their financial statements a liability that recognizes post-employment benefits as this benefit is earned by employees.

The Authority’s most recent valuation reflected a present actuarial-estimated liability of approximately \$542,000; however, the overall estimated liability into the future is actuarially estimated to approximate \$934,000. While this is a future liability, the Authority does not have a consistent and predictable stream of revenue annually, so consideration and funding of the liability while the Authority has the present financial resources to fund the liability may be a long-term strategy for the future when financial resources are not as predictable.

We would encourage the Authority to adopt MGL c. 32B s 20, which would allow the Authority to establish an OPEB Trust Fund. This enabling legislation has been specifically set up by the State Legislature and was recently amended to allow municipal entities to legally begin reserving funds for future OPEB costs.

This is a reminder to management that as part of its long-term planning, the Authority should begin to reflect the effects of OPEB into its plan. Other municipal entities, although while still in the minority, are becoming more active in this regard. The City of Cambridge is one such entity that is aggressively funding this liability.

*Authority's Response:* The Authority received its GASB 45 Analysis from Odyssey Advisors in March 2015 confirming that the Authority is at its anticipated peak annual payment level. The Authority is currently considering what projects from its Strategic Plan may be implemented over the next few years. Additionally, the outcome of the planning and zoning work for the Kendall Square Urban Renewal Plan, which would provide additional financial resource through real estate transactions in the future, is unknown at this time. Therefore, the Authority has decided to begin funding its OPEB obligation at a modest pace based on the GASB 45 recommendation.

### ***Cash Disbursement: Purchase Orders***

The Authority does not utilize a purchase order system. Implementing a purchase order system can enhance the controls surrounding the cash disbursements cycle, as it will add additional layers of control to initiating the payment of an invoice and the purchase of goods and services. The Authority should determine if the implementation of such a system would be both cost effective and appropriate in regards to the normal operations.

*Authority's Response:* The Authority has hired an outside accountant to help determine how best to conduct its bookkeeping such that Purchase Orders may be appropriately handled in the accrual ledger in its electronic bookkeeping system, especially for longer term service contracts. In the meantime, the Authority has set up a parallel contract tracking and budget system for contracts.

Due to the small staff size of the Authority, the Office Manager acts as the purchase manager for goods and supplies. The Executive Director is informed and signs off on any purchases or disbursements up to \$1,000. These smaller transactions will be reviewed monthly by the Treasurer (see below) to provide additional over site. Check disbursements over \$1,000 require the approval of the Executive Director and the signature of the Treasurer or Assistant Treasurer. The Authority will further evaluate the appropriate threshold for efficiently using a Purchase Order system.

### III. GENERAL FINDINGS

#### *Certified Procurement Officer (repeated from prior year)*

The Inspector General holds a procurement course several times during the course of a year. These courses are intended to give public officials an in-depth overview of procurement in Massachusetts. We suggest the Executive Director attend these courses to gain a better understanding of the complex aspects of procurement in our State. Successful completion of such a course would also allow the Executive Director to earn the distinction of becoming a Certified Procurement Officer.

*Authority's Response:* *The Authority has begun scheduling personnel to attend such courses; however, it should be noted that courses are only offered occasionally throughout the year by the Inspector General's Office, so completion will be timed with such offerings. The Office Manager has completed one portion of the series of courses, and the Executive Director intends to follow suit in the near future.*

*The CRA has utilized its legal counsel extensively to review its procurement processes for various new contracting activities from park construction to developer selection.*

#### *Secure Location*

The Authority does not maintain a safe within their office to hold important documents or monies received or being held for later processing. While the Authority may not have many of such items, safes come in various sizes, and it is important that certain financial items be able to be securely maintained.

This came to our attention during the audit because it was represented that an employee usually takes money to the bank for deposit at night; however, if they cannot always make it that night so they take the money home and then deposit it the next morning. We would note that this is a process that is not acceptable under a good internal control structure, so we suggested a safe to keep the money in overnight and then make deposits during the day as the bank is only a five minute walk away. This is when the lack of a safe was brought up and the fact that the employee did not feel they had the time in the middle of the day to leave the office to go to the bank and return to the office – something that should be only a 15 – 20 minute activity. Therefore, we suggest the Authority review this overall process and allow the employee adequate time during regular working hours to make deposits as needed.

*Authority's Response:* *In order to facilitate numerous transactions to shift investment funds and authorize major purchases, staff have brought paper work and checks to late evening Board meetings for the Treasurer and other Board members to review or authorize. Staff will seek alternative times to conduct such transactions or bring documents back to the office after Board meetings. Additionally, the Authority has purchased a safe for securing checks, deposits, and petty cash.*

### ***Employee Records***

We noted that the Authority is maintaining employee payroll related files all in one single folder for each employee. In particular, we noted that the Form I-9 document that is required to be completed when an employee is hired was also included in these folders. The Department of Homeland Security instructs that I-9 forms are to be maintained in a separate folder away from other employment documentation. Accordingly, the Authority should create a separate folder in which to maintain these forms.

*Authority's Response:* *The Authority has separated employee I-9 forms in a separate file.*

### ***Development Assets Held for Sale***

During the year, the Executive Director was notified by the City of Cambridge's Assessor's Office that certain land parcels within the City listed the Authority as the property owner. Such parcels had not been reflected on the Authority's previous lists of property owned by the Authority. Some of these were remainder parcels that are the residual of past Authority projects. Working with the Executive Director and the historical records maintained within the office, we were able to estimate proportionate cost basis for the parcels to develop amounts upon which the assets and net position equity could be restated to include those parcels. The resulting restatement was for \$66,997 which has been reflected within the 2014 financial statements.

*Authority's Response:* *The Authority has begun a joint effort with the City Assessor's Office and Title Examiner to correct and clarify the property records related to all current and previous real estate assets of the Authority. This effort will identify remnant parcels from past redevelopment transactions and open space property that are not likely developable.*

### ***Accounting Function (updated from previous year)***

While certain changes and personnel hiring activities were started in 2013, it would be fair to state that 2014 was the first year in which these changes were being fully implemented and adapted for accounting and reporting of the Authority's financial activities. Additionally, the Authority ceased to need accounting or payroll assistance from the City of Cambridge during 2014. Such changes can be summed up as the hiring of a new Office Manager, implementation of a new Quickbooks accounting ledger system, outsourcing of payroll processing, and the hiring of financial consultants to assist with various aspects of accounting system implementation, methods, and training.

While a vast majority of the previous accounting items pointed out in previous management letters have now been resolved, the following represent accounting areas as of December 31, 2014, that we suggest the Authority work to correct or improve on in future periods:

- 1) Payroll withholding liability account balances are not properly stated to reflect the amounts collected and held on-behalf of employees that are due and payable in the



subsequent period. The amounts range from -\$1,769 to \$3,985; however, the net amount of the overall account balances that would need adjustment is only \$159.

- 2) An escrow deposit in May 2015 for \$3,000 was incorrectly recorded within Quickbooks as a May 2014 transaction that overstated cash and escrow deposit liability as of December 31, 2014. We would note that the transaction occurred after the Authority had closed the books for 2014 when the error didn't exist; furthermore, before they had a chance to reconcile the May 2015 cash activity to identify the error, the audit identified the posting date error's impact on the 2014 activity.
- 3) The Authority should request bank account balances for all bank accounts (including certificate of deposit accounts) that they do not receive bank statements for or that they do not have on-line access to directly determine balances as of December 31. By obtaining this information, the Authority will be able to record all earned, accrued interest income on their certificate of deposit accounts which could be significant.
- 4) We noted that the Office Manager receives and enters vendor invoices, generates check payments to vendors, and performs the bank account reconciliation on their own within Quickbooks. There is no formal review of the actual documents by another individual beyond review of only the vendor payment check before being signed. We believe that even with a small staff, it is important to develop a certain level of segregation of duty and offsetting checks and balances. One of the ways this can be accomplished is if a separate person review and signoff on the bank account reconciliations or more ideally if a separate person could be the one reconciling the bank accounts in Quickbooks. It is unclear whether the Authority will have the need to hire another staff person capable of such duties; so until that time, the Treasurer or the Assistant Treasurer should be the individual reviewing and signing off on the bank statement reconciliations each month.

Authority's Response:

*The Authority has hired accounting consultant to provide assistance in adjusting accounting protocols so as to more accurately track and post accounting transactions in accordance with the items suggested above.*

*The Authority is implementing a procedure to have a Comptroller provide quarterly reviews of the bank statements and general ledger. Further, the Authority will have the Treasurer or Assistant Treasurer review the monthly ledger at the monthly Board meetings. The Office Manager has arranged for the balances of CDs held in its investment portfolio to be provided to the Authority on a quarterly basis.*

#### **IV. CLOSED OUT PRIOR YEARS' FINDINGS**

The below topics were noted as findings in the prior year, but are now deemed to be closed out and no longer operational deficiencies as a result of actions taken by the Authority through the date of this letter.

##### ***Create policy and procedure manual and Consideration of Fraud and Theft***

There were two comments that had been included within prior management letters that are being addressed singularly here because the consideration of fraud and theft has been addressed as part of the personnel policy manual.

The Authority has formally adopted the following policies which covered the primary policy and procedure areas that had been identified for development in previous management letters:

- 1) Personnel Policies
- 2) Procurement Policies and Procedures
- 3) Internal Control Policies and Procedures
- 4) Investment Policies

We applaud the effort put forth by management and leadership of the Authority in developing and adopting these policies and procedures. Furthermore, we would encourage the Authority to make an point to reviewing these written documents every 3-5 years and update them for any changes that are necessary as a result in the change in Authority operations or technological advancements that may have created other processing avenues.