

**TOWN OF SOUTHAMPTON, MASSACHUSETTS**

Management Letter

For the Year Ended June 30, 2015

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**Additional Offices:**

Nashua, NH  
Manchester, NH  
Andover, MA  
Ellsworth, ME

To the Board of Selectmen  
Town of Southamptton, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Southamptton as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Town'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 Town'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.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Town's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

*Melanson Heath*

May 26, 2016

## **CURRENT YEAR ISSUES:**

### **1. IMPROVE INTERNAL CONTROLS OVER PAYROLL DISBURSEMENTS (SIGNIFICANT DEFICIENCY)**

While improvements have been made over prior years, we still noted the following exceptions during our testing of internal controls over 25 payroll disbursements:

- For seven of the sixteen non-school employees tested, documentation to support the rate of pay was lacking. While the timesheets themselves included a pay rate there was no documentation that the pay rates on the timesheets were authorized. For fiscal year 2015, a spreadsheet was created to track the rates of pay for most employees; however, the employees selected in our testing were not included. The lack of a comprehensive list of authorized pay rates increases the risk of inappropriate salaries and wages being paid.
- We found one instance where a timesheet contained no documented approval and seven instances where the timesheet was not approved by a knowledgeable individual.

We recommend that procedures be established to maintain up-to-date documentation of pay rates for all employees. We also recommend that employee timesheets be approved by a knowledgeable individual before processing.

#### **Town's Response:**

For fiscal year 2017 the Town plans on compiling a list of all town employees, their pay rates, and step/grade level to be approved by the Board of Selectmen. The Town is also working on procedures (as part of our financial management procedure and policy manual) to establish and maintain an up to date documentation of pay rates going forward. Currently the Town has hired a consultant to create a wage and compensation plan that could be implemented and used going forward.

For fiscal year 2015, it appears the Auditors used a compiled excel sheet that was utilized for current employees as of the retro-active pay that was issued in Jan 2016. As a result, an employees who had left the Town's employment prior to such date, were not included in the spreadsheet as no retro pay was issued.

### **2. ENSURE COMPLIANCE WITH MASSACHUSETTS PROCUREMENT LAWS (COMPLIANCE FINDING)**

In our review and testing of the internal controls over compliance with Massachusetts procurement laws (Massachusetts General Laws [MGL] Chapter 30B) we noted the following issues:

- We found one instance where a purchase was made from the State bid list, but documentation could not be provided as evidence that the pricing per the invoice agreed with the State bid list. In addition, even though the purchase was over the Town's purchase order threshold, no purchase order was issued for this purchase.

We recommend the Town retain all proper supporting documentation and that purchase order procedures be followed by departments when required.

- Invoices submitted to the Town Accountant for payment do not always contain a copy of the purchase order which certifies that the applicable bid requirements have been met in accordance with MGL.

We recommend departments attach a copy of the purchase order or documented evidence of vendor quotes/bids to invoices when submitting to the Town Accountant for disbursement processing. This will streamline the disbursement process and provide assurance that procurement procedures were properly followed.

Town's Response:

The Town Accountant's office will be more diligent in sending any bills to be paid that are over the threshold of the Town's purchase order amount back to the originating department for further review/documentation.

For fiscal year 2015, the issue that was identified has been noted by the finance team prior to the audit. There was a purchase for a medical unit for the fire station that was subsequently financed, all outside of the scope of the procurement official and the finance officials.

3. MONITOR TRANSFER STATION FUND BUDGET

The Town's fiscal year 2015 transfer station user charge revenue fell short of budget projections by approximately \$(43,000). Since the actual user charge revenue in fiscal year 2015 was slightly less than previous year's revenue, the budget shortfall appears to be due to an overestimation of anticipated collections. In addition, expenditures were only under budget by approximately \$(26,000).

As a result, the transfer station fund operations reported a net loss of approximately \$(20,000) in fiscal year 2015, leaving retained earnings in a deficit of approximately \$(18,000). This deficit was required to be raised on the Town's fiscal year 2016 recap. Per review of the fiscal year 2016 tax recap, transfer station revenue was budgeted slightly more conservatively than the prior year

at approximately \$214,000. This revenue estimate still appears high, as it is \$12,000 more than the fiscal year 2015 actual revenues.

We recommend the Town carefully monitor future revenue projections to avoid basing the budget on unrealistic or unattainable estimates. This will help ensure a positive financial position in the Town's transfer station fund and enable the Town to make sound decisions in regard to future rate setting and budgeting expenditures.

Town's Response:

The Highway Superintendent, along with the approval of the Board of Health, has reduced the number of days the Transfer Station is open for fiscal year 2017 from three to two. This will save approximately \$8,000 in wage expenses. The tipping fees for fiscal year 2017 have also been increased and should result in an increase of revenues for the transfer station. The Town believes that the combination of these two items will result in a more favorable outcome for fiscal year 2017.

4. IMPROVE INTERNAL CONTROLS OVER BUDGET PROCESS

In our review of the Town's budget process, including documentation, vote authorizations and the tax recap, we noted the following issues:

- During the fiscal year 2015 budget process the Town changed the way State assessment charges were presented and ultimately raised these charges twice on the tax recap in fiscal years 2015 and 2016.

We recommend the Town modify the budget planning documents to exclude these charges from the budgeted amounts voted at Town Meeting to avoid the duplication of these costs on the tax recap.

- During fiscal year 2015 the Town Accountant used the Town Meeting warrant to post budget entries; however, the warrant did not include the final voted result of the article. Consequently, a budget entry was posted for an article that was ultimately passed over at Town Meeting.

We recommend that in the future, the Town Accountant enter budgeted amounts in the general ledger based on Town Meeting minutes, so they accurately reflect only the approved amounts.

- The reserve for expenditure balances (surplus/free cash voted in fiscal year 2015 for the fiscal year 2016 budget) in the General Fund was not adjusted to reflect the correct balance as of June 30, 2015. As a result, General Fund reserves were overstated and certified free cash was understated by approximately \$57,000.

We recommend these reserve balances be reviewed for accuracy before closing the books and filing for free cash certification with the State.

Town's Response:

With the fiscal year 2017 budget process the Town has gone back to the way it had previously accounted for the State assessment charges. This should no longer be an issue going forward. The Town Accountant is now asking for Town Meeting minutes to be sure that the information she had from Town Meeting is correct. The Town Accountant will wait to record any and all entries to the ledger until the minutes are furnished to her.

5. OTHER ISSUES

The following section of the management letter identifies several other current and prior year recommendations for improvements which are reported in a summarized manner. We will be available to discuss these with the Board of Selectmen in more detail to assure that there is a clear understanding of the issues and recommendations.

Current Year:

Pursue tax title balances

The Town's tax title balance grew from approximately \$185,000 at June 30, 2014 to approximately \$215,000 at June 30, 2015. We recommend the Town establish a policy to be more aggressive in pursuing delinquent accounts. This could include collection efforts such as pursuing land court / foreclosure procedures, using an outside collection agency and/or executing payment plans in accordance with State laws.

Town's Response:

The Town currently is pursuing foreclosure on one property and looking into a Tax Title Auction. Unfortunately, a drop in funding for the Tax Title Expense line prohibits us from doing more than we are right now.

Review IT controls

During our evaluation of the Town's internal controls over information technology, we noted the following:

- There are no formal processes in place to ensure that system incidents, problems, and errors are reported, analyzed, and resolved in a timely manner.
- There are no criteria in place for password requirements (length, history, expiration and lockout for failed attempts).



- There are no formal processes in place to review, test and train after the installation or upgrade of software systems.

We recommend the Town review the controls over IT for adequacy.

Town's Response:

The Town Administrator, Volunteer IT Director, and the Select Board will work towards establishing a written policy on how to properly file an IT ticket and we will track the IT issues and the resolutions.

We will continue to work with our software to require specific criteria on our passwords.

Establish a formal investment policy

The Town currently does not have a formal written investment policy. We recommend that policies and procedures be established to ensure that the Town's investments comply with Massachusetts General Laws.

Town's Response:

We will formalize the Investment Policy which we have been working on.

Prior Year:

Formalize procedures over water abatements

During our inquiry we found that there are no formalized policies and procedures over the issuance of water abatements. We recommend the Town establish procedures outlining the situations where abatements will/will not be granted. This will help ensure that all users receive consistent treatment.

Town's Response:

The Town is currently seeking information from other towns as to how they handle and what their water abatement policies are. This information will be reviewed with the Water Commissioners and members of finance team to see if the information received can be adapted into our own policy. Currently the Water Commissioners are signing off on all abatements given to the Treasurer/Collector and Town Accountant. As it stands there are very few abatements and usually they are billing error related.

**PRIOR YEAR ISSUES:**

6. IMPROVE PROCEDURES OVER AMBULANCE RECEIVABLES (SIGNIFICANT DEFICIENCY)

As also noted in prior years, the Town contracts with an outside company to bill and collect for ambulance services provided by the Town's Fire Depart-

ment. The outside company also maintains the database and reports amounts billed, collected and owed to the Town. Most payments for ambulance services are received by the company who periodically wires the funds collected directly into a Town bank account. Occasionally checks are received by the Fire Department and direct Medicare payments are received by the Treasurer.

To enhance internal controls, we recommend:

- The Fire Department reconcile the service call information supplied to the company for billing purposes to the call detail / billing report generated by the company to ensure that all ambulance services provided were billed.
- The Accountant and/or Fire Chief compare receipts between the general ledger / Treasurer and company reports to ensure that receipts were remitted and posted timely and intact.
- The Accountant annually reconcile the general ledger receivable balance to agree with a balance due report generated by the outside company.

In addition, as of June 30, 2015, approximately \$85,000 of the total receivable balance of \$99,000 was over 90 days old. Upon inquiry, we found there are no formal procedures for recognizing an ambulance receivable account as uncollectible and the subsequent "write off" of the delinquent account.

We recommend the Town formalize a policy for abating uncollectible ambulance receivables. This may be accomplished by requiring the outside billing company and the Town Administrator to provide a list of uncollectible accounts to the Board of Selectmen with a recommendation to abate. The Board could then formally vote to abate the receivables.

Implementation of these recommendations will improve internal controls as applied to ambulance service receipts as well as ensure the accuracy of revenue and collectability of accounts receivable reported in the Town's general ledger.

Town's Response:

The Town will take the recommendations from the management letter and will implement them for the new fiscal year 2017. This is an ongoing process and will be put to the forefront to be resolved in fiscal year 2017. The Town will discuss the best way to handle old and uncollectible receivables to come up with a formal policy going forward. Town Accountant will check with other communities on how they handle these types of issues.

7. IMPROVE DEPARTMENTAL RECEIPT PROCEDURES

The Town currently does not have formal written policies and procedures for departments to follow for collecting and remitting departmental receipts. The lack of formal policies and procedures increases the risk that errors or omissions could occur and go undetected.

The Town should also consider establishing an internal audit function to properly monitor operations and assess the risk of misstatement caused by errors, irregularities or omissions. In addition, departments should be supplied with a report of their revenues on a monthly basis so they can verify that their receipts were recorded accurately in the general ledger.

Implementation of these recommendations will result in improved oversight and could reduce the risk of errors or irregularities from occurring and going undetected.

Town's Response:

The Town Accountant is working on an internal audit function discussed in the recommendations from the management letter and the function will be implemented in the new 2017 fiscal year. In relation to this area the Finance Team (Town Administrator, Town Accountant, Treasurer and Finance Committee member) are working on a town wide Financial Management Policy and Procedure Manual in hopes to streamline our policies and document them to avoid any risk of errors in the future. The departments are supplied with a bi-monthly revenue and expense report so they are able to verify that their receipts were recorded accurately in the general ledger.

8. DEVELOP A MORE FORMAL RISK ASSESSMENT PROCESS

The Town informally performs its own risk assessment for possible fraud or material misstatement through various policies and procedures. 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 officials) and a description of how the organization intends on responding to the risks.

We recommend that the Town implement a more formal risk assessment process that includes written identification of areas where potential fraud or material misstatements to the financial statements may occur. Regular meetings with financial team staff 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 responsibilities, since this could create opportunities for fraud to occur and go undetected. If staffing levels do not permit an adequate segregation of duties, the Board of Selectmen should provide additional oversight, which should include review and documented sign-off.

We also recommend the Town establish a formal employee fraud policy to provide staff with guidance in the event they observe or suspect fraud in the work place or consider setting up a whistleblower hotline.

Town's Response:

The Town Administrator will work with relevant bodies to develop a formal employee fraud policy and work with the Town Accountant to identify risk areas and set up meetings to evaluate possible risk within departments.

\* \* \*

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