

**TOWN OF SOUTHAMPTON, MASSACHUSETTS**

Management Letter

For the Year Ended June 30, 2016

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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, 2016, 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, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Melanson Heath*

June 29, 2017

## CURRENT YEAR ISSUES:

### 1. IMPROVE INTERNAL CONTROLS OVER BUDGET PROCESS

As also noted in the prior year, during 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.

- The Town did not report any votes from the October 2015 Special Town Meeting on the fiscal years 2016 or 2017 tax recaps.

We recommend the Town establish a procedure to ensure that someone is responsible for verifying all Town Meeting votes are properly accounted for on the tax recap.

#### Town's Response:

With the fiscal year 2017 budget process, the Town has gone back to the way it had in previous year always 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.

### 2. 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:

##### Update Select Board meeting minutes

Our review of the Select Board's meeting minutes, which took place in June 2017, found that the minutes from mid-March through May 2017 were not yet typed and, therefore, were unavailable to be reviewed.

We recommend the Town establish a timetable for typing minutes so they may be made available to the public on a more timely basis.

Town's Response:

Past practice had been to have an individual take and type minutes of the Select Board meetings, which allowed them to be done in a timelier manner. We did get away from that for a while and will go back to this practice. The Select Board will discuss putting together a policy on a timeline of when minutes need to be available to the public.

Prior Year:

Pursue tax title balances

The Town's tax title balance has been steadily growing over the past few years from approximately \$185,000 at June 30, 2014 to approximately \$230,000 at June 30, 2016. 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:

During the fiscal year 2017 the Town Treasurer/Collector has made extra efforts in pursuing tax title balances. One issue was not enough funding to continue her efforts, but the Town voted to appropriate more money for this. Currently the tax title balance is down approximately \$74,000.

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:

Currently the Town is working with the IT Director for the Hampshire Regional School System to help us assess what the town needs for IT. She will help us in putting together a plan for the next few years based on our goals as a town. The previous Town Administrator did set up quasi policy for reporting any issues.

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:

While the Town has no formal written policy, we are working on a Financial Management Policy and Procedure Manual and we have a draft of an investment policy that once the manual is complete and accepted this will be included.

**PRIOR YEAR ISSUES:**

3. 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 Department. 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.

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:

Currently the Town Accountant is comparing the receipts between the general ledger and the company reports to ensure receipts were remitted and posted in a timely manner. The Town Accountant is also reconciling the general ledger to the balance due from the outside company (summary and detail reports). The Fire Chief has established a write off policy with the outside company to determine the steps that need to be taken to write off old receivables. The ambulance receivables process has improved over the fiscal year 2017 year and will continue to be improved in fiscal year 2018 for process adjustments.

4. 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 will be implemented in the new 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



5. 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.

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