

TOWN OF SOUTHAMPTON, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2017

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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, Massachusetts of and for the year ended June 30, 2017, 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, those charged with governance 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

April 24, 2018

CURRENT YEAR ISSUES:

There are no current year issues.

PRIOR YEAR ISSUES:

1. 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.

2. 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 currently finalizing a Departmental Receipt Procedure. This policy will be brought to the Selectboard for approval by June 30, 2018. Originally this was part of the town wide Financial Management Policy and Procedures Manual, but this policy will be voted on separately as the Manual is still in progress. Once the Departmental Receipt Procedures Policy is voted on by the Selectboard, the Town Accountant will implement an internal audit function to ensure the Town's departments are following the procedure. Revenue reports are currently supplied to departments twice per month (middle of month and end of the month) so the departments can verify that their receipts are recorded accurately in the general ledger.

3. OTHER ISSUES

The following section of the management letter identifies several prior year recommendations for improvements which are reported in a summarized manner.

Prior Year:

Update Select Board meeting minutes

Our review of the Select Board's meeting minutes, which took place in January 2018, found that some minutes from the prior six-month timeframe 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 has been to have a clerk take and type minutes of the Selectboard meetings, which allowed them to be done in a timely manner. The Selectboard was without a clerk to take minutes for approximately an eight-month time period, which caused a delay in the approval and posting of minutes. Recently approved Open Meeting Law requirements state that Committees and Boards will approve and post minutes within the next three public body meetings or within 30 days, whichever is later, unless the public body can show good cause for further delay.

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 newly appointed Town Administrator will address our IT needs in the upcoming fiscal year. Our previous Interim Town Administrator began this process with the IT Director of the Hampshire Regional Schools, however, a full assessment and plan was never fully developed prior to his departure.

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:

The previous Treasurer developed a formal written policy on investments. This policy will be brought to the Selectboard for approval by June 30, 2018. Originally this policy was part of the town-wide Financial Management Policy and Procedure Manual, but it will be voted on separately as the Manual is still in progress.

4. 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 will work with the Town Accountant to identify risk areas. In addition, meetings will be set up to evaluate possible risk areas within departments.

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All other prior year issues have been satisfactorily resolved.