

**TOWN OF SOUTHAMPTON, MASSACHUSETTS**

Management Letter

For the Year Ended June 30, 2018

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INTRODUCTORY LETTER</b>	1
<b>CURRENT YEAR ISSUES</b>	3
1. Comply with State Procurement Law (Compliance Finding)	3
2. Improve Procedures Over Ambulance Receivables	3
3. Prepare for GASB Statements 84 and 87	4
<b>PRIOR YEAR ISSUES</b>	
4. Other Issues	4
5. Develop a More Formal Risk Assessment Process	5

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To the Board of Selectmen  
Town of Southampton, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Southampton, Massachusetts as of and for the year ended June 30, 2018, 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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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 was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit 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.

During our audit we 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*

March 14, 2019

## **CURRENT YEAR ISSUES:**

### 1. **COMPLY WITH STATE PROCUREMENT LAW (COMPLIANCE FINDING)**

In testing for compliance with the Massachusetts procurement laws, we noted one instance of noncompliance. In this instance the department involved was working on a project where the State performed the bid for services as the work was completed through a grant. The Town wanted to extend the project and the contractor offered to complete the project using the same prices bid for the State grant-funded project. The additional (Town-funded) work totaled just over \$150,000, making it subject to a formal bid process under Massachusetts procurement laws.

We recommend that in the future the Town comply with the state procurement law on all applicable projects.

#### Town's Response:

The Town Accountant will work with the Town Administrator (CPO) to develop a policy for future procurement purchases to be sure that all departments, boards, committees and commissions are following the state procurement laws. The new policy will be handed out and reviewed for clarity by the departments, boards, committees, and commissions.

### 2. **IMPROVE PROCEDURES OVER AMBULANCE RECEIVABLES**

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.

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 post monthly activity to the receivable account and reconcile the monthly activity to the outside billing company reports.

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 Accountant has for fiscal year 2019 begun receipting commitments, payment receipts and adjustments to the general ledger, as well as reconciling the general ledger month by month to the reports provided by our billing company Coastal Billing.

The Fire Department and the Auditors have had discussions on how best to approach this for fiscal year 2019.

3. PREPARE FOR GASB STATEMENTS 84 AND 87

GASB Statements No. 84 and 87 will apply to the Town in fiscal years 2020 and 2021, respectively. Statement No. 84 addresses fiduciary activities and may require a change in how the Town accounts for and reports these activities. Statement No. 87 addresses leases and significantly changes the accounting standards related to them, including requiring various operating leases to be reported on the Town's balance sheet.

We recommend the Town prepare for these accounting changes by ensuring all departments are aware of the pending changes. The Town should also consider updating its lease accounting policy to ensure all material leases are properly identified.

Town's Response:

The Town Accountant will need to research both statements and will confer with the Auditors to discuss the best way to approach and what changes need to be made to the Town's balance sheet.

**PRIOR YEAR ISSUES:**

4. OTHER ISSUES

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

Review IT controls

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

- 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 Hall server will be replaced shortly. At the time of the server replacement the Town Administrator will work with the IT vendor to install a comprehensive Group Policy for Password control on the server which will include the length and makeup requirements for the password, the length of time the Password will be good until it expires, password history so they must be dissimilar passwords when renewed and the User being locked out if they enter the incorrect password three times or more. We will also institute a plan to review and test software after its installation or upgrade and train the employees who are utilizing the software.

Establish a formal investment policy

While the Town did adopt an investment policy specific to OPEB trust fund investments, the Town currently does not have a formal written investment policy for all other Town investments. We recommend that policies and procedures be established to ensure that the Town's investments comply with Massachusetts General Laws.

Town's Response:

A Town-wide investment policy will be reviewed by the Treasurer and brought to the Select Board for approval prior to the end of the fiscal year. This will be added to the Town Wide Management Financial Policy and Procedure manual.

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.