



## **TOWN OF SOUTHAMPTON, MASSACHUSETTS**

Management Letter

For the Year Ended June 30, 2019

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INTRODUCTORY LETTER</b>	1
<b>CURRENT YEAR ISSUES</b>	
1. Improve Internal Controls Over Budget Process	3
2. Reconcile Trust Fund Balances	3
3. Other Issues	4
<b>PRIOR YEAR ISSUES</b>	
4. Develop a More Formal Risk Assessment Process	6

**Additional Offices:**

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

To the Select Board  
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, 2019, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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.

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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
- Probable. The future event or events are likely to occur.

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.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance, including those overseeing the financial reporting process, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

*Melanson Heath*

April 16, 2020

## **CURRENT YEAR ISSUES:**

### **1. IMPROVE INTERNAL CONTROLS OVER BUDGET PROCESS**

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

- During Annual Town Meeting the Town warrant includes certain articles that are intended to specify funding sources only, not additional appropriations. During the tax rate recap preparation, these articles were accidentally added as additional appropriations, and therefore an additional \$120,401 was raised via taxation.

We recommend the Town consider modifying the format and/or wording of the Annual Town Meeting warrant articles to make it clear that this is only specifying a funding source and are not additional amounts to be raised.

- In fiscal year 2018 the Town approved two water capital projects, however, as of the end of fiscal year 2019, budgeted expenditures accounts still had not been created in the general ledger.

In addition, during fiscal year 2019 the Town approved the purchase of land, however, a budgeted expenditure account was not created in the capital project fund, and the expenditures were charged to a liability account.

We recommend that budgeted expenditure accounts be created as soon as a project is appropriated. This will help ensure that all appropriations are properly approved, tracked or rescinded if needed.

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

The Town Accountant has asked for sample wording for the warrant article for other funding sources voted at town meeting in order to alleviate errors in recording the town's budget in the tax recap.

The Town Accountant has established and recorded the expense accounts related to the fiscal year 2018 Water Projects and the Land the town purchased in fiscal year 2019. These were originally recorded on the TB due to the anticipation of funds going to be borrowed.

### **2. RECONCILE TRUST FUND BALANCES**

During our testing we noted that the Treasurer's trust fund balances did not agree with the general ledger. Some variances were the result of transfers not being made, and others were the result of duplicate transfers being made. Some of the material variances are listed below:

<u>Trust Fund</u>	<u>General Ledger Balance</u>	<u>Treasurer's Balance</u>	<u>Variance</u>
OPEB Trust Fund	\$226,388	\$268,744	\$42,356
General Stabilization Fund	\$386,459	\$438,545	\$52,086
Capital Stabilization Fund	\$206,294	\$24,111	\$(182,183)

We recommend the Treasurer reconcile trust fund balances with the general ledger at least quarterly. This will help ensure that activity is posted in the period in which it occurs and balances in individual trust funds are accurate.

Town's Response:

The Town Accountant and Treasurer during the fiscal year 2019 Audit realized that the amounts were off, and that some of the transfers were done twice. The Town Accountant is going to give a report of the Trust Accounts transfer if there are any after each Town Meeting to the Treasurer. The Treasurer will also verify the transfers from the town meeting minutes. The Town Accountant will also reconcile quarterly the balances per the Treasurer bank reconciliation with her ledger to be sure all of the transfers have been done.

3. OTHER ISSUES

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

Adjust Reserve for Expenditures Balance Annually

During our review of the Town's reserve for expenditures balances in the enterprise funds, we found that these balances were not updated from the prior year.

We recommend the Town review these balances at as part of the yearend close process to ensure balances are accurate for yearend submission.

Town's Response:

The Town Accountant noticed while reviewing the documents needed for the Annual Town Report for fiscal year 2019 that the Transfer Station FB Reserve for Encumbrances had not been reversed in fiscal year 2019 from fiscal year 2018. The Town Accountant has corrected this in fiscal year 2020. She will be sure to reverse the recording encumbrance or expenditure entry right after posting those entries in the general ledger.

Maintain Accurate Schedule of Overlay

While the Assessor's Office did maintain a schedule of overlay, it was missing the current amount authorized per the tax rate recap and some abatements were

reported twice. As a result, this balance did not reconcile to the general ledger at June 30, 2019.

We recommend the Assessor's Office maintain an accurate running balance of overlay and that balance be reconciled to the general ledger at least quarterly.

Town's Response:

The Town Accountant and the Assessor will reconcile their balances prior to closing the books for year end and before submitting reports to Auditors in the future.

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.
- During fiscal year 2019, backups were done manually once a week on site, however, currently this process has been discontinued and therefore no backup is being performed.

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

Town's Response:

We are currently awaiting the installation of our new Server at the Town Hall. The installation has been delayed due to the COVID-19 Outbreak. The Server will be installed once the restrictions from the Outbreak are over and all employees have returned to work, as once the Server is installed it will be necessary for the vendor to visit each employee's workstation to make sure all the network connections and drives are working properly. Currently our Passwords do expire after 90 days and if they have expired the User would be locked out of the system. Along with the installation of the new Server new protocol criteria will be put into place to meet industry standards for password requirements; such as length and makeup, history so a new password must be substantially different from previous passwords, length of time it is valid for and the individual user being locked out for a certain number of failed attempts in a row.

The Town Administrator will work at developing a formal process to put in place to review, test and train employees after installation or upgrade of software systems and will present this to the Select Board by September 1, 2020.

The individual doing the onsite backups did them in fiscal year 2020 until late into 2019. The Town Administrator took over the duties of doing the onsite backups in 2020 of at least once a week. In addition, the Town Server is now also remotely monitored to see if anything goes wrong with it or it crashes. If anything goes wrong with the Server the Town Administrator is notified.

**PRIOR YEAR ISSUES:**

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 Select Board 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 the Town Accountant and the Financial Team to identify any areas of concern and to develop a Formal Risk Assessment Policy to bring forward to the Select Board for approval. The Town Administrator will also work with the Town Accountant to develop an Employee Fraud Policy to bring forward to the select Board for approval.

\* \* \*

All other prior year issues have been satisfactorily resolved.