



TOWN OF SOUTHAMPTON, MASSACHUSETTS

Management Letter
For the Year Ended June 30, 2020

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY LETTER	1
CURRENT YEAR ISSUES	
1. Improve Internal Controls Over Cash and Receivables – Material Weakness	3
2. Properly Record Expenditure Budgets	3
PRIOR YEAR ISSUES	
3. Develop a More Formal Risk Assessment Process	4



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, 2020, 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.

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 material weaknesses.

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.

Material weaknesses are noted in the table of contents and comment headings.

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

800.282.2440 | melansoncpas.com



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.

A handwritten signature in black ink that reads "Melanson".

Greenfield, Massachusetts
January 18, 2022



CURRENT YEAR ISSUES:

1. Improve Internal Controls Over Cash and Receivables – Material Weakness

Performing timely cash and receivable reconciliations and reviewing all reconciling items are critical procedures to ensure the Town's cash and receivable balances are properly reported and controlled. When these reconciliations are not being performed, there is an increased risk that errors or irregularities could occur and go undetected. As of January 2022, cash and receivable balances have not been reconciled since June 2020.

We recommend the Town implement measures to ensure that timely, accurate, and independent reconciliation of cash and receivable balances occurs monthly throughout the year. These reconciliations should be documented and signed by the preparer and a reviewer in order to improve documentation and oversight.

Town's Response:

From the end of October 2020 to the end of September 2021, there was no permanent Town Accountant for the Town of Southampton. During that time, no reconciliations were performed by the interim accountant, but the Treasurer's office did continue to reconcile their activity to the bank on a monthly basis. Now with a Town Accountant in place, processes for proper analysis will return.

Currently receivable packets are being reviewed by the Town Accountant once the Treasurer has confirmed that they have finished their process. Backup for each revenue input is located and attached to the physical printed packet for future reference.

Monthly reconciliations are planned for the cash and subledger accounts. Once fiscal year 2021 has been fully closed, scheduled times for said reviews shall take place each month. Any discrepancies between the Town Accountant and the Treasurer will be resolved through emails, phone calls, and/or meetings. With consistent controls in place, issues will be identified and fixed faster, which will prevent lingering errors from festering.

2. Properly Record Expenditure Budgets

During our review of the Town's budget process, including documentation, vote authorizations and general ledger budget entries, we noted the following issues:

- 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. In fiscal year 2020, the remaining

budget amount was recorded in the capital project fund, but a duplicate budgeted expenditure account was also created in the community preservation fund. Some costs and related bond proceeds were incorrectly charged to this fund.

- In fiscal year 2018 the Town approved two water capital projects, however, as of the end of fiscal year 2020, expenditures accounts had been created in the general ledger, but authorized budgets were not recorded.

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

Town's Response:

The Town Accountant and Assistant Town Accountant will work with both the Department of Local Services and the Town's auditors to ensure that budgeted expenditure accounts are created at the time that they are approved and recorded in the correct fund for that project activity.

PRIOR YEAR ISSUES:

3. 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 workplace or consider setting up a whistleblower hotline.

Town's Response:

A "Draft" Formal Risk Assessment Policy has been developed and will be forwarded to the Select Board for any amendments and formal adoption of the Risk Assessment Policy by the Select Board for the Town.

* * *

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