



TOWN OF SOUTHAMPTON, MASSACHUSETTS

Management Letter
For the Year Ended June 30, 2021

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INTRODUCTORY LETTER | 1 |
| | |
| CURRENT YEAR ISSUES | |
| 1. Improve Internal Controls Over Cash and Receivables – Material Weakness | 3 |
| 2. Improve Controls Over Budgeted Amounts Reported in General Ledger | 3 |
| 3. Other Issues | 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 (the Town) as of and for the year ended June 30, 2021, 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.



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.

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

Greenfield, Massachusetts
November 14, 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. Cash and receivables were not reconciled at all during fiscal year 2021 and as of October 2022, cash and receivable balances have been reconciled through January 2022.

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:

The Treasurer/Collector and the Town Accountant are catching up with reconciliations. Challenges such as being understaffed, the delayed close of fiscal year 2021, and a new Town Accountant are temporary obstacles. When given the time to do so, variances and discrepancies are quickly addressed thanks to files and templates that have been developed to automate these processes. Going forward, cash and receivable reconciliations will occur consistently each month.

2. Improve Controls Over Budgeted Amounts Reported in General Ledger

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

- The Town voted to transfer funds to the General Fund from the Stabilization Fund and the Ambulance Receipts Reserve for Appropriation Fund. While the actual transfers were made, the budgeted transfer amounts were not recorded in the general ledger.
- In fiscal year 2018, the Town approved two water capital projects. As of the end of fiscal year 2020, expenditures accounts had been created in the general ledger, but authorized budgets were not recorded. In fiscal year 2021, the Town created budgeted expenditure accounts, but incorrect amounts were used.

We recommend that budgeted revenue, expenditure, and transfer 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) and that all authorized transfers have been made.

Town's Response:

Budgets are essential to the proper tracking of projects, grants, expenses, etc. Upon being notified about a new budget item with clear documentation, the Town Accountant will swiftly update the General Ledger. When new GL accounts are created, discussions take place about the funds they belong to, the funding source, which departments will use the account(s), the appropriated/expected budget, and other relevant questions. The Town Accountant will promptly record Town Meeting votes to pursue accuracy.

3. Other Issues

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

Properly Record Votes on Tax Recap

During our review of the fiscal year 2021 tax rate recap, we noted that all of the votes occurring at the August 15, 2020 Special Town Meeting were duplicated on the Schedule B-2, Sources and Uses of Other Available Funds. We recommend that all pages of the tax rate recap be reviewed and tied to Town Meeting votes prior to submission.

Town's Response:

The duplication of the Town Meeting votes on the FY 2021 Tax Rate Recap was a result of multiple individuals entering information. This was due to several individuals new to their position trying to help. To avoid this happening again in the future, the Town Accountant will solely be responsible for inputting the Town Meeting votes onto DLS Gateway.

Improve Timeliness of Trust Fund Cash Transfers

The Town's trust fund activity is accounted for in the general ledger accurately; however, the ending general ledger balances does not agree with the Treasurer's trust fund cash balance. This is the result of the Treasurer not transferring funds voted at town meetings from the Capital Stabilization fund bank account to the Town's operating account. As a result, the Treasurer's trust fund cash balance was approximately \$100,000 higher than the general ledger balance.

We recommend that the general ledger be reconciled to the Treasurer's trust fund cash balances on a quarterly basis. This will ensure an accurate and timely reconciliation of trust fund cash balances with the Town's general ledger.

Town's Response:

In the future the Treasurer will transfer funds after each Town Meeting. The Treasurer and Accountant will balance trust fund cash on a quarterly basis.

Reconcile the Overlay Account

The overlay balances per the Assessor’s office were not reconciled to the general ledger during fiscal year 2021. Upon initial review of the Assessor’s balance, it did not include the amount per the fiscal year 2021 tax rate recap of approximately \$97,500. After factoring in that balance, the variance between the Assessor’s records and the general ledger was approximately \$7,600.

We recommend the Assessor’s office maintain an accurate running balance of the overlay account and that balances be reconciled to the general ledger on a quarterly basis.

Town’s Response:

This has been addressed with the Assessor’s Office. Going forward, the overlay account will be reconciled to the GL with the Town Accountant’s Office.

Adopt Formal OPEB Declaration of Trust

The Town has established an OPEB Trust Fund, but has not adopted a formal OPEB Trust Fund declaration of trust. This document details the investment options, provides a custodial management framework, and much more.

We recommend the Town consider establishing a formal OPEB Trust declaration of trust document.

Town’s Response:

The Town understands that this is a new requirement and will be working with Bartholomew to implement a Formal OPEB Declaration of Trust during this fiscal year.

PRIOR YEAR ISSUES:

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