

TOWN OF SOUTHAMPTON, MASSACHUSETTS

MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2022

TOWN OF SOUTHAMPTON, MASSACHUSETTS

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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, 2022, 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 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 a deficiency in internal control that we consider to be material weakness. Material weakness is noted in the table of contents and comment heading.

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.

Marcum LLP

Greenfield, MA
July 25, 2024

TOWN OF SOUTHAMPTON, MASSACHUSETTS

CURRENT YEAR ISSUES

1. Improve Controls Over Cash Reconciliations, Receipts, and Receivables (Material Weakness)

During our audit, we noted several areas where improvements could be made:

Although cash was reconciled timely throughout fiscal year 2022, the Town fell behind on cash reconciliations during fiscal year 2023. As of audit fieldwork in May 2023, cash was only reconciled between the Treasurer and Accountant through the month of October 2022. As of the report issuance date, cash was reconciled through February 2024. Reconciliation of cash is integral to a strong internal control system. Specifically, the timely reconciliation of cash accounts ensures the proper recording of receipts and disbursements. Lack of this reconciliation increases the risk that errors or irregularities may occur or go undetected. We recommend the Town make it a priority to reconcile cash between the Accountant and the Treasurer on a monthly basis.

During fiscal year 2022 fieldwork in May 2023, we noted that Treasurer receipt information was reported to the Town Accountant through the month of October 2022. As of the report issuance date, cash was reconciled through February 2024. As a result, the general ledger records are not up to date and cannot be reconciled in a timely manner. We recommend that Treasurer's monthly receipt information be reported to the Town Accountant by the third week of the subsequent month. This will provide an opportunity to reconcile the general ledger more timely, thereby reducing the risk of errors or irregularities occurring and going undetected.

During fiscal year 2022, receivable reconciliations between the general ledger and the Tax Collector were not performed on a regular basis. We recommend the Town formally reconcile between the general ledger and the Tax Collector at least quarterly. This will result in improved internal controls over receivables.

2. Improve Controls Over Budgeting Process

During our review of the budgeting process, we noted the following areas where improvements could be made:

- Amounts recorded in the general ledger for the budget of taxes and local receipts did not agree to the tax recap.
- Rescinded borrowing for Greenway Rail Trail Path was not included on the tax rate recap. All borrowing authorizations and rescissions should be noted on the tax rate recap.
- Budgeted transfers for the stabilization fund and ambulance receipts reserved for appropriations were not recorded in the general ledger.
- Amounts recorded in the general ledger for the transfer station revenue and expense budget did not agree to the tax rate recap.

TOWN OF SOUTHAMPTON, MASSACHUSETTS

CURRENT YEAR ISSUES (CONTINUED)

2. Improve Controls Over Budgeting Process (Continued)

- Amounts recorded in the general ledger for the water expense budget did not agree to the tax rate recap.
- Annual Town Meeting articles voting the use of water retained earnings were not recorded in the general ledger.
- Special Town Meeting article 11 was updated from \$35,000 to \$30,000. This change was not reflected on the tax rate recap.

We recommend the Town implement or improve procedures to ensure the approved budget is accurately reflected on the tax recap and in its financial accounting software system.

3. Adopt Formal OPEB Declaration of Trust

The Town has established an OPEB Trust Fund, but not 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.

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