

**TOWN OF HALIFAX, MASSACHUSETTS**  
**SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING**  
**PROCEDURES AND INTERNAL CONTROL**  
JUNE 30, 2016



**Lynch, Malloy, Marini, LLP**  
*Certified Public Accountants & Advisors*

To the Honorable Board of Selectmen  
Town of Halifax, Massachusetts

In planning and performing our audit of the financial statements of the Town of Halifax, Massachusetts (the Town) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as identified in the report on internal control over financial reporting we identified certain deficiencies in internal control that we consider to be material weaknesses, as defined below.

*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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or 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 significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We are also submitting for your consideration comments and recommendations which are not considered to be significant deficiencies but are intended to improve operations and internal accounting control.

The comments and recommendations presented herewith in are intended to improve the system of internal accounting control or result in other operating efficiencies. The factual accuracy of our comments has been discussed with management to obtain their concurrence before the development of our recommendations for improvement. Matters commented on represent findings during the audit and have not been reviewed subsequent to the date of this report.

A management letter is critical by nature because its purpose is to identify areas where improvements can be made. Accordingly, we have not commented on many positive attributes of the Town's financial management systems. It is also important to understand that it is generally not practical to achieve ideal internal control in the complex governmental accounting environment and we recognize that practical considerations are an important factor in changing administrative practices and internal control. The Town should weigh the advantages and disadvantages of the suggested changes over the present practices and procedures.

We would like acknowledge the courtesy and assistance extended to us by Town personnel during our audit. We also understand that due to the timing of our audit, recommendations and findings presented in previous year may not have been addressed due to time constraints.

This letter is intended solely for the information and use of management, the Board of Selectmen, others within the Town, and is not intended to be and should not be used by anyone other than these specified parties.

*Lynch, Malloy Marini, LLP*

Norwell, Massachusetts  
March 27, 2017

## **STATUS OF PRIOR YEAR COMMENTS**

As part of our audit of the Town's financial statements for the year ended June 30, 2015, we issued a letter of comments and suggestions dated March 29, 2016 relating to our fiscal year 2015 audit. The Town has considered these comments. The status of our prior year comments is presented below.

### **Material weakness identified during our prior year audit**

Our prior year report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* contained one material weakness: Implement procedures to reconcile cash timely and accurately (2015-001).

Management has taken steps to address this material weakness and the issue has been reported as a significant deficiency (2016-001) in the current year.

### **Capital assets**

We continue to recommend the Town evaluate procedures to improve the reporting of the capital assets additions and disposals. Procedures should be implemented to have all departments keep track of capital additions and disposals. Invoice support for the additions during the year should be kept in a folder to support the current year activity. Regular communication should be completed to review any disposals during the year (at least semi-annually).

### **Record all cash accounts on the general ledger**

We continue to recommend the Town record all cash accounts on the Town's general ledger.

See the current year cash comments for more detail.

### **Implement reconciliation procedures for Tax Title and Tax Deferral**

We continue to recommend the Treasurer periodically and regularly reconcile activity and outstanding balances and review any discrepancies with the Accountant. As part of audit procedures, we found there was a variance between the Accountant and the Treasurer for the tax title and tax deferral balances.

The Town is in the process of reconciling the difference in fiscal 2017

### **Implement reporting procedures for student activity funds**

We inquired of the Town Treasurer about the reporting activity of student activity funds of the Town's elementary school. The Treasurer was unable to provide us with an accounting of student activity funds from the school. We recommend the Town Treasurer and Town Accountant implement procedures in accordance with Massachusetts General Law Chapter 71, Section 47 to obtain an accounting of the student activity funds including regular reconciliations.

The Town is in compliance with these requirements in fiscal 2016. During the year, funds were transferred from the student activity account that were not for student activities.



## **CURRENT YEAR COMMENTS AND SUGGESTIONS**

### **Implement procedures to reconcile cash timely and accurately (Significant Deficiency 2016-001)**

Our current year report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* contained one significant deficiency: Implement procedures to reconcile cash timely and accurately (2016-001).

The Town must provide adequate procedures to ensure timely and accurate reconciliation of cash accounts to maintain internal controls of the Town's cash balance and bank accounts.

The Deputy Collector and Halifax in Light accounts were not on the Town's general ledger. An adjusting entry has been posted to record the approximately \$20,000 of cash on the Town's general ledger.

During the year there was an adjusting entry of approximately \$1,400 made to the general ledger to agree to the cashbook reconciliation. This was done after extensive research could not resolve the variances.

During fiscal year 2016, there was an outstanding check that was subsequently voided for a retirement check for an individual who did not retire. An adjusting entry of approximately \$15,000 was made at year end.

The Town has investments with Bartholomew carried on the books at cost basis and should be carried at fair market value. We recommend the Town record the investments at fair market value. Adjusting entries were made at year end to record the investments at fair market value.

We continue to recommend the Town provide procedures for maintaining timely and accurate bank reconciliations throughout the year to ensure variances are properly identified in a timely fashion. Without complete and accurate reconciliation of cash accounts to the general ledger each month, the Town is at risk of overstating or understating cash balances.

We understand the Town has incrementally improved its cash reconciliation procedures over the past year and reconciliations between the treasurer and accountant occur monthly. Management believes that the reconciliation issues will be completely resolved in the next fiscal year.

### **Internal control recommendations**

As a normal component of the audit, we obtain an understanding of the Town's systems and controls and complete walkthroughs and testing to validate compliance with the Town's internal controls and compliance with MGL.

During the procurement testing for 2016, there was one vendor missing W-9's from the sample selected for testing (1 of 5) and it could not be determined if a 1099 should be issued for one vendor. We recommend annually requesting vendors provide W-9's to ensure 1099's can be completed accurately.

During the test of cash receipts turnovers for 2016, there were payments received for mobile home excise payments, but per inquiry there were no bills sent out. Bills should be sent out to ensure the proper amount is paid and any unpaid amounts can be properly tracked.

### **Grant Compliance – (Other matter 2016-002)**

Implementation of the Uniform Guidance highlighted the importance and requirement for grantees to maintain internal control policies and procedures surrounding the administration of federal grants, focusing on clearly defining the key components (control environment, risk assessment, control activities, information and communication and monitoring) The Town has yet to fully formalize documentation of all aspects of control environment surrounding grant administration as recommended by federal guidance.

We recommend the Town enhance the documentation surrounding aspects of grant administration.

### **Informational:**

#### **Uniform Administrative Requirements, Cost principles, & Audit Requirements for Federal Awards**

OMB has increased the threshold for the Single Audit for fiscal year 2016 to aggregate federal expenditures of \$750,000 or more. In addition, OMB has new regulations, referred to as the Uniform Guidance, which supersedes previously issued circulars. In addition to the increased expenditure threshold, the new circular highlights the importance and requirement for grantees to formalize the internal control structure (policies and procedures) surrounding the administration of federal grants. The key components (control environment, risk assessment, control activities, information and communication, monitoring) are clearly detailed and recommended to be followed in the Federal "Green Book".

The Town of Halifax is subject to the Single Audit for fiscal year 2016.

### **Other Post Employment Benefits**

Government Accounting Standards Board, Statement #75 Financial Reporting for Postemployment Benefit Plans Other Than Pensions, is required to be implemented in fiscal year 2018. This new standard replaces the current reporting requirements of GASB Statement #45. Most notably, the new standard will require the unfunded liability to be reported on the Town's Statement of Net Position (Balance Sheet) rather than only a note disclosure. This is similar to the net pension liability which was implemented in the current year with GASB Statement #68. This will have a material effect upon the financial reporting (net position) of the Town.

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