

TOWN OF HALIFAX, MASSACHUSETTS
SUGGESTIONS FOR IMPROVEMENT IN ACCOUNTING
PROCEDURES AND INTERNAL CONTROL
JUNE 30, 2017

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, 2017, 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.

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, Marini & Associates Inc

Norwell, Massachusetts
January 9, 2018

STATUS OF PRIOR YEAR COMMENTS

As part of our audit of the Town's financial statements for the year ended June 30, 2016, we issued a letter of comments and suggestions dated March 27, 2017 relating to our fiscal year 2016 audit. The Town has considered these comments. The status of our prior year comments is presented below.

Significant deficiency 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 significant deficiency: Implement procedures to reconcile cash timely and accurately (2016-001).

We continue to consider this a significant deficiency 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 receivables

In the prior year we recommended the Treasurer periodically and regularly reconcile activity and outstanding balances and review any discrepancies with the Accountant. As part of audit procedures in the current year, we found there immaterial differences the Treasurers and Accountant's receivables. Although differences were immaterial to the financial statements as a whole, we continue to recommend that all receivable types are reconciled between the Treasurer and Accountant.

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. The following were prior year comments that have been repeated in the current year:

During the test of cash receipts turnovers, 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.

During the procurement testing for 2017, there was one vendor missing W-9's from the sample selected for testing (1 out of 5) and it could not be determined if a 1099 should be issued for one vendor. We continue to recommend annually requesting vendor's W-9's to ensure that 1099's can be completed accurately.

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) In the prior year, the Town had yet to fully formalize documentation of all aspects of control environment surrounding grant administration as recommended by federal guidance.

In the current year we reviewed formal documentation regarding internal control over grant compliance along with a management decision letter from FEMA indicating that the Town has satisfied corrective actions necessary to remove this finding.

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.

There were numerous outstanding checks that were over a year old in the payroll and vendor account. Checks of \$1,827 and \$13,950 were over a year old for the payroll and vendor account, respectively. Proper tailing procedures and review of these old checks should be completed.

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.

Informational:

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. The Town elected to early implement this Statement in fiscal year 2017. This new standard replaces the current reporting requirements of GASB Statement #45. Most notably, the new standard requires 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 had a material effect upon the financial reporting (net position) of the Town.

Leases

Government Accounting Standards Board, Statement #87, *Leases*, is required to be implemented in fiscal year 2020. This new standard defines a lease as a contract that conveys control over the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange-like transaction. This Statement establishes a single model for leases accounting (eliminating distinctions between operating and capital leases) on the principle that leases are financings of the right to use an underlying asset. Accordingly, the Town (lessee) is required to recognize a lease liability and an intangible right-to-use lease asset.
