

***TOWN OF HALIFAX, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2018***

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To the Honorable Board of Selectmen  
Town of Halifax, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Halifax, Massachusetts as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Halifax, Massachusetts' internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances 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.

However, during our audit we became aware of several matters that represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Town personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management of the Town of Halifax, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

*Powers + Sullivan, LLC*

January 28, 2019

**TOWN OF HALIFAX, MASSACHUSETTS**

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# ***COMMENTS AND RECOMMENDATIONS***

## **DEVELOP A FORMAL TRAVEL AND EMPLOYEE REIMBURSEMENT POLICY**

### Comment

We believe the Town needs to develop a formal written travel and employee reimbursement policy. During our audit we noted that employees are not consistent with the supporting documentation submitted to receive reimbursement for things such as a training class. We also noted that there is confusion as to what mileage on a personal vehicle is eligible for reimbursement.

Having a formal written travel and employee reimbursement policy will help to streamline processing reimbursements, and assure that all employees seeking reimbursement are submitting the consistent supporting documentation.

### Recommendation

We recommend that the Town develop a formal written travel and employee reimbursement policy and assure that all department heads receive a copy in which to discuss and distribute to their staff.

## **OLD OUTSTANDING CHECKS**

### Comment

Overall, the audit of cash went very well, with the reconciliations being accurate and documented.

However, we noted that the bank reconciliation for the vendor and payroll accounts reported outstanding checks greater than three months old, some going back to 2010, as reconciling items. In most instances, checks not cashed timely after the issue date indicates that the checks were either reissued, lost or are being held. As part of internal controls over cash disbursements and expenditures, the aging of outstanding checks should be monitored to ensure they are true outstanding checks.

### Recommendation

We recommend that management establish a formal, written policy concerning uncashed checks based on current State laws. Such a policy should specify aging milestones with required actions. For example, this policy might specify that when checks are past 60 days old, the payee should be contacted. After 90 days, the checks should be moved to the tailings account or written off.

## **CREDIT REAL ESTATE AND WATER USER CHARGES RECEIVABLE BALANCES**

### Comment

As of June 30, 2018, there are several old real estate and water user charges receivable accounts that have credit balances. Although the receivables are being reconciled in total on a monthly basis, the credit balances can represent refunds that are due to taxpayers for overpayment and typically require research to identify the cause of the credit balance before a refund can be issued, or it can represent posting errors to the incorrect year of receivable.

We also noted that the general ledger maintains separate accounts for the various years of water receivables, whereas the Collector's system groups all water receivables together. This is the main reason for the credits reported within the general ledger, as the receivables are reconciled in total and it is difficult to always know which year to post the payment to.

The fact that the credit balances go back to fiscal 2007, indicates that refunds or account corrections have not been completed timely.

#### Recommendation

We recommend that the Town investigate these credit accounts receivable balances and implement procedures to remove the balance either through refunds or other appropriate action and that the Town implement procedures to prevent credit receivable balances from occurring in the future.

We also recommend that the Town Accountant collapse the water receivable accounts to one, which will facilitate a more efficient reconciliation to the Collector's records.

### **ACCOUNTING FOR SHORT-TERM DEBT**

#### Comment

We noted that short-term notes are being recorded as revenue with an associated amounts to be provided in the capital projects fund. Under the Uniform Municipal Accounting System (UMAS), the entry to record short-term notes is to increase cash and notes payable. Recognizing revenue on short-term borrowings could result in inaccurate management decisions because fund balance is then overstated by the amount of the borrowings. Correcting entries have been recorded and provided to the Town Accountant's Office.

#### Recommendation

We recommend that the Town record short-term notes according to UMAS accounting.

### **BUDGET ESTIMATED REVENUES AND OTHER FINANCING SOURCES/USES**

#### Comment

The Town does not utilize the revenue budget function of its automated accounting system, nor are the budgets for other financing sources (OFS) and other financing uses (OFU) entered into the accounting system. Through utilization of the budget functionality, the Town can enter the estimated revenues and estimated OFS and OFU's for the fiscal year into the accounting system and produce reports that will measure budget versus actual performance. The accounting system serves as the official books and records of the Town and because of this, management should be relying on the system to provide the necessary information to make managerial decisions.

Although the Town is properly reviewing their appropriation budgets, not including the complete balanced budget in the accounting system increases the risk that management may not have readily available information in which to base decisions on.

#### Recommendation

We recommend that the Town utilize the accounting system to track the entire general fund fiscal budget.

## **DEVELOP WRITTEN DISASTER RECOVERY PROCEDURES**

### Comment

The Town does not have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities.

### Recommendation

We recommend that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

1. Location of, and access to, off-site storage.
2. A listing of all data files that would have to be obtained from the off-site storage location.
3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
4. Responsibilities of various personnel in an emergency.
5. Priority of critical applications and reporting requirements during the emergency period.

## **COMPLETE A FRAUD RISK ASSESSMENT**

### Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.

- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

#### Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation. Department heads should provide information detailing any activities within their departments that may lend themselves to potential fraud, i.e. identification of idle cash or collections that don't get turned over daily or instances where internal controls over Town assets are not in place or are not functioning as intended.

### **CONSIDER WRITING-OFF UNCOLLECTIBLE AMBULANCE RECEIVABLES**

#### Comment

As of June 30, 2018, the Town had \$1.6 million in outstanding ambulance accounts receivable. Many of the outstanding receivable balances have been carried for six fiscal years. The ambulance receivable subsidiary ledger should be reviewed periodically to identify uncollectible accounts. Any accounts that are determined to be uncollectible should be written-off on an annual basis so that the receivable balance reflects accounts that are considered to be collectible.

#### Recommendation

We recommend that the ambulance subsidiary receivable ledger be reviewed periodically to identify uncollectible accounts and that accounts that are determined to be uncollectible be written-off on an annual basis.



## **UTILIZE FIXED ASSET MODULE**

### Comment

The Town currently utilizes a spreadsheet to maintain its fixed asset listing for financial reporting purposes. Using a spreadsheet for this purpose is cumbersome and increases the likelihood of error due to the volume of fixed assets included on the listing.

Each year, the fixed asset listing must be updated to include current year fixed asset additions, fixed asset retirements for assets no longer in service, and the calculation of annual depreciation. We understand that the Town has purchased the fixed asset module to their general ledger package. The use of this module will facilitate the calculation of annual depreciation and eliminate the risk of errors that can occur when utilizing a spreadsheet for this purpose.

### Recommendation

We recommend that the Town implement the use of their fixed asset module to maintain its fixed assets.