

TOWN OF HALIFAX, MASSACHUSETTS
AUDITOR'S REPORT PURSUANT TO GOVERNMENT AUDITING
STANDARDS ISSUED BY THE COMPTROLLER GENERAL
OF THE UNITED STATES
FOR THE YEAR ENDED JUNE 30, 2012

TOWN OF HALIFAX, MASSACHUSETTS
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FOR THE YEAR ENDED JUNE 30, 2012

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**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***

To the Honorable Board of Selectmen
Town of Halifax, Massachusetts

We have audited of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information the financial statements of Town of Halifax, Massachusetts, as of and for the year ended June 30, 2012, and have issued our report thereon dated January 31, 2013. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Town of Halifax, Massachusetts is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Halifax, Massachusetts' internal control over financial reporting 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 Town of Halifax, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control over compliance 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 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 consider the deficiency in internal control over compliance described in the accompanying schedule of findings and responses as item 2012-02 to be a material weakness.

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 consider deficiency 2012-01 described in the accompanying schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Halifax, Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Town of Halifax, Massachusetts in a separate letter dated January 31, 2013.

Town of Halifax, Massachusetts' responses to findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Town of Halifax, Massachusetts' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Selectmen, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

MLB CPA, LLP

January 31, 2013

TOWN OF HALIFAX, MASSACHUSETTS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

Significant Deficiency

2012-01 - Implement procedures to maintain inventory of capital assets and infrastructure

Criteria: Generally accepted accounting principles require the Town to report the cost of capital assets, accumulated depreciation by asset class, and annual depreciation by functions. Internal controls should be in place that provides reasonable assurance that the Town can meet its reporting requirements.

Cause/Condition/Context: In a prior fiscal year, the Town purchased a detailed report of the Town's capital assets and accumulated depreciation. The Town has since entered that "base" information into an electronic spreadsheet to calculate & summarize information needed for financial reporting. Although the Town has added or deleted assets each year after reviewing annual financial activity and inquiry of various department heads, annual depreciation expense from the base year assets has remained unchanged. In addition, the information contained in the various spreadsheets is susceptible to inadvertent changes or errors in formulas.

Effect: With each passing year, the Town is at greater risk of over or understating the net value of capital assets. With the use of an electronic spreadsheet maintained manually, there is a greater inherent risk of calculation errors resulting from formula errors, inaccurate data entry and other errors.

Recommendation: We recommend the Town implement procedures to maintain capital asset records on an ongoing basis and to provide for periodic reporting. These procedures should include: methodology for identifying construction in progress; communicating and recording capital asset additions and disposals; identifying cost of disposed assets; calculating annual depreciation; verifying departmental equipment and infrastructure; and reporting on the change in capital assets and accumulated depreciation on a functional and departmental basis each year. In addition, we recommend the Town use software designed to track, accumulate, and report data as needed.

Management's Response: The Town has acquired software to maintain and report capital asset and depreciation information for reporting purposes. The Town is formulating policies and procedures for the maintenance of capital assets that it expects to have finalized for implementation in fiscal year 2013.

Material Weakness

2011-02 - Implement procedures to reconcile cash timely

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

Cause/Condition/Context: During June 2009 the Town's Treasurer retired after many years of service. The new Town Treasurer needed additional time & assistance following the procedures and forms used by her predecessor. After assistance by an outside consultant, the reconciliation of cash accountants for June 30, 2010 and 2011 was made available to us during the middle of January 2011, 2012, respectively.

During December 2012, the June 30, 2012 reconciliation of cash accounts was available for audit. Although there was no change to the Town's overall cash position, we identified several reconciling items which were not properly identified on the Town's reconciliation. Three of the instances were over 6 months old. As of the December 2012, the reconciliation of subsequent monthly bank statements to the cash book is several months in arrears.

TOWN OF HALIFAX, MASSACHUSETTS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

Effect: Cash accounts were not timely reconciled throughout the year and at year end from bank statements to cashbook through to the Town general ledger. The delay in reconciling the cash accounts in turn delayed reporting financial information to the Department of Revenue and preparation of audited financial statements. Without timely reconciliation of cash accounts to the general ledger each month, the Town is at risk of overstating or understating cash balances.

Recommendation: We understand the Town has incrementally improved its cash reconciliation procedures over the past year, however we continue to recommend the Town provide for maintaining bank reconciliations on a timely basis throughout the year.

Management's Response: During fiscal year 2012, Treasurer implemented a more conventional and standardized cash book and reconciliation system. The Town also implemented a new financial management system that provides for an integrated cash book and general ledger. We expect to be up to date and timely with cash reconciliations by end fiscal year 2013.