

TOWN OF HALIFAX, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2021

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, 2021, 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

May 31, 2022

TOWN OF HALIFAX, MASSACHUSETTS

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COMMENTS AND RECOMMENDATIONS

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 continue to 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.

Current Status

The Town is working on developing a formal written policy concerning uncashed checks based on the current State laws.

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

Current Status

The Town is reviewing their current general ledger package and working with the vendor to determine if there are updates available which will more effectively facilitate the utilization of revenue and expenditure budgets. An emphasis is being placed on including the budgets for approved other financing sources and other financing uses.

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 continue to 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.

Current Status

The Data Processing Department has made progress on developing a plan and it is expected to be completed during FY22.

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.

Current Status

The Town has developed a formal written fraud risk assessment. This matter is considered resolved.