

**CITY OF NORTHAMPTON, MASSACHUSETTS**  
**MANAGEMENT LETTER**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**CITY OF NORTHAMPTON, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2018**

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To the Honorable Mayor and City Council  
City of Northampton  
Northampton, Massachusetts

In planning and performing our audit of the basic financial statements of the City of Northampton 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 City of Northampton's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

A material weakness is a deficiency, or a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We have already discussed these comments and suggestions with City personnel. We will be pleased to discuss them in further detail and to assist you in implementing the recommendations.

The City's written response to our comments and suggestions has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the management, the Mayor and City Council, others within the entity and the Commonwealth of Massachusetts Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties.

*Scanlon and Associates, LLC*

Scanlon & Associates, LLC  
South Deerfield, Massachusetts

January 25, 2019

## INFORMATIONAL ITEMS

### A. Implementation of Future GASB Statements

Comment:

In an effort to enhance financial information of a government's financial statements, the GASB is continually issuing new pronouncements that will effect what is required to be reported in a government's financial statements. Over the past couple years GASB has been active in developing new standards. It is important that the City be aware of the current and future statements. The following are some of new GASB pronouncements that will be required to be implemented in future fiscal years:

- GASB Statement No. 83 – *Certain Asset Retirement Obligations*. This statement is required to be implemented in fiscal year 2019.
- GASB Statement No. 84 – *Fiduciary Activities*. This statement is required to be implemented in fiscal year 2020.
- GASB Statement No. 87 – *Leases*. This statement is required to be implemented in fiscal year 2021.

Given the significant impact of these GASB statements on the City's financial accounting and reporting, we recommend that the City familiarize and educate themselves with the aforementioned statements to ensure proper implementation.

## CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

### 1. Retirement Appropriation

Comment:

The Northampton Retirement System is comprised of members from the following governmental units: City of Northampton and Northampton Housing Authority. Each year the Public Employee Retirement Administration Commission (PERAC) determines the amount of the appropriation to be paid by each member governmental unit. PERAC determines this amount based on information provided by the retirement board with regards to the aggregate annual salary for regular compensation for all members of each unit. During our fieldwork, we noted that regular compensation to public safety employees for incentive pay was omitted from the amount submitted to PERAC.

We recommend that the retirement department include all regular compensation in the annual salary amounts submitted to PERAC for the determination. The retirement director was informed of this situation at the time of our fieldwork and is in the process of implementing new procedures.

## **PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters**

### **1. Departmental Receipts**

#### Prior Year Comment:

During our audit we reviewed certain departmental receipts into the City treasury. We noted that some departments are not indicating whether the receipts were cash or check. Because of the higher risk of currency (cash) transactions it is important that a trail exists from time of collection to bank deposit. Therefore, the departmental turnover forms and departmental receipt documentation should indicate whether the receipt is cash or check. We believe this additional procedure will improve the internal control over departmental receipts.

#### Status – Fiscal Year 2018 Audit:

The City has implemented procedures to monitor and review Departmental turnovers to ensure Departments are indicating cash and checks. Our testing indicated improvement has been made in this area.

### **2. Ambulance Receivable**

#### Prior Year Comment:

The City engages the service of an outside billing and collections company for its ambulance services. The Company provides monthly activity reports to the fire department for the ambulance services. During our audit we noted the accounts receivable for the ambulance charges are not recorded on the City's general ledger. We recommend that the ambulance accounts receivable be recorded on the City's general ledger. The receivable should be periodically reconciled to source documents (i.e. ambulance billing reports).

#### Status – Fiscal Year 2017 Audit:

The City has implemented procedures to cross check monthly ambulance receivable reports to the general ledger. However, during our audit fieldwork we noted the procedures were not effective in reconciling the ambulance revenue. We noted a variance between the ambulance billing reports revenue and the revenue recorded on the City's general ledger. We reviewed this matter with City personnel at time of fieldwork. Since the date of fieldwork the City has implemented new procedures, as recommended, to rectify the above situation.

#### Status – Fiscal Year 2018 Audit:

The City has implemented new procedures to reconcile the ambulance revenue account on a periodic basis. The accounts receivable for the ambulance charges are not recorded on the City's general ledger. We continue to recommend that the ambulance receivable be recorded on the City's financial statements.

### **3. Health Insurance Withholding Account**

Prior Year Comment:

During our audit we noted that health insurance withholding account balance was not being properly reconciled. Because this account has significant annual activity and carries with it statutory responsibilities, we recommend that this account be accounted for accurately and consistently. A proper and timely reconciliation of the health insurance withholdings would minimize and control potential discrepancies from occurring.

We recommend that the health insurance withholding account be reconciled monthly to the applicable governmental regulations and source documents to ensure that proper employee and retiree contributions are being properly accounted for.

Status – Fiscal Year 2017 and 2018 Audit:

The City has implemented procedures to reconcile the health insurance accounts. We recommend the City continue these reconciliation procedures.

### **4. Review Old Outstanding Receivable Balances**

Prior Year Comment:

During our prior audit we noted there are older accounts receivable that exists in the motor vehicle, personal property, boat excise and departmental receivables. We recommend that the City research the older accounts receivables to determine if the accounts should be abated or make an effort to collect them. Also, the City Collector should reconcile the motor vehicle outstanding amounts to the deputy collector on a periodic basis.

Status – Fiscal Year 2017 Audit:

The City Tax Collector has started the process of reviewing the older tax receivables and has abated several years of older motor vehicle excise levies. The Assessors and Treasurer/Collector have begun a process to either abate personal property receivables or pursue collection. As of the date of our fieldwork there are still older personal property accounts and real estate accounts that need to be addressed, by either abatement, collection or refunds issued. We recommend the City clear-up the older property accounts receivable by the end of fiscal year 2018.

Status – Fiscal Year 2018 Audit:

The same condition exists at June 30, 2018.