

CITY OF NORTHAMPTON, MASSACHUSETTS
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2014

CITY OF NORTHAMPTON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2014

	<u>Page</u>
TABLE OF CONTENTS	2
INTRODUCTORY LETTER	3
INFORMATIONAL ITEMS	
A. GASB No. 68 – Accounting and Financial Reporting for Pensions	4
B. New OMB Circular	4
CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters	
1. Departmental Receipt Procedures	5
2. Review Vendor File	5
PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters	
1. Health Insurance Withholding Account	6
2. Encumbrances Reporting	6
3. Improve Bank Account Reconciliations	7
4. Review Old Outstanding Receivable Balances	7

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, 2014, 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 charged 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 & Associates, LLC
Scanlon & Associates, LLC
South Deerfield, Massachusetts

January 28, 2015

INFORMATIONAL ITEMS

A. Government Accounting Standards Board (GASB) Statement – GASB no. 68

Comment:

The GASB has issued new pronouncements that will significantly affect financial accounting and reporting requirements for Pensions. One of the pronouncements that will affect the City is summarized as follows:

- GASB Statement No. 68 “*Accounting and financial reporting for pensions*” is required to be implemented in fiscal year 2015. This statement will significantly change the reporting and accounting of the pension liability and expense. The primary objective of the statement is to improve accounting and financial reporting by state and local governments for pensions. Changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods and assumptions may continue to be used to determine funding amounts. Governments will be required to recognize in their financial statements a net pension liability (asset) determined annually as of the end of the fiscal year. GASB statement no. 68 is a financial reporting standard and does not require funding of any net pension obligation.

Given the significant impact of this GASB statement on the City's financial accounting and reporting we recommend that the City familiarize and educate themselves.

B. New OMB Circular

Comment:

In December 2013 the Office of Management and Budget (OMB) released new guidance on administrative requirements, cost principles and audit requirements for federal awards, which has been so called the “Super Circular” or “Omni Circular”. This new guidance supersedes and streamlines requirements contained in OMB Circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122 and A-133 by consolidating the requirements of those eight documents into one. The new guidance affects entities receiving and administering federal awards as well as auditors responsible for auditing federal award programs. The goal of this reform is to provide guidance that ease the administrative burden of federal awards, strengthen oversight over federal funds to reduce risks of waste, fraud and abuse and eliminate duplicate and conflicting guidance between circulars. The new guidance will be in effect for all federal awards or funding to non-federal entities on or after December 26, 2014 and will apply to non-federal entity audits for fiscal years beginning on or after that date (fiscal year 2016).

We recommend City personnel that administer and account for federal awards familiarize themselves with this new guidance.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Departmental Receipt Procedures

Comment:

Various departments of the City receive cash and check payments from customers in the normal course of operations. Cash transactions, by nature, have a higher degree of inherent control risk and require the establishment of additional preventive controls to safeguard against loss. The City should establish and disseminate uniform policies and procedures for the handling of receipts by all departments. Issues to be considered include:

- Maintaining receipt logs with reference to source documentation.
- Maintaining pre-numbered receipt books.
- Maintaining an audit trail over remittances to the Treasurer's Office.
- Establishing policies for frequency of remittance.
- Establishing policies for breakdown of cash and checks on a standardized turnover sheet.
- Account reconciliations between the Treasurer's and Auditor's office with City Departments.
- Security of receipts on hand during City business hours and overnight.

We recommend that the City review and modify, if necessary, the uniform policies and procedures over the receipt function pertaining to various departmental receipts. The City should monitor departmental compliance with established procedures on a periodic and continual basis. All department heads should review established procedures and document their understanding of the relevant cash receipt control activities.

City's Response:

The Treasurer's Office is currently reviewing the processing and procedures of departmental receipts. We are drafting a written policy which will be distributed to all departments. The policy will address items within the recommendation, to include; frequency of turnovers, source documentation, cash/check breakdowns, and security within departments. We will include an acknowledgement sheet for each department head to document their understanding of the relevant cash receipt control activities.

2. Review Vendor File

Comment:

During our audit we reviewed the procedures and policies of vendor disbursement cycle. Our testing noted that form W-9 from vendors were inconsistently retained and kept on file by the City. Form W-9 is required to be obtained by the City from a vendor when a payment is made to that vendor. The form contains certain information and is essential to generating IRS form 1099.

We recommend the City review it's vendor file and procedures to ensure that all vendors have a W-9 form and that form 1099's are being properly issued to the required vendors.

City's Response:

The City has contacted all vendors subject to 1099 reporting and requested updated W-9 forms. The City has reviewed the procedures and policies of vendor disbursement cycle and is working with departments to ensure that vendors have submitted W-9 forms.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. 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. During our fieldwork we proposed adjustments to the health insurance withholding account and reviewed what procedures needed to be implemented to personnel.

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

Status – 2014 Audit:

The City has implemented procedures to rectify the situation.

2. Encumbrance Reporting

Prior Year Comment:

Encumbrances (the portion of the current year budget carried forward for expenditure in the subsequent year) should be based on actual contracted obligations. Generally, these obligations take the form of purchase orders, contracts, salary commitments and binding commitments that is chargeable to a specific appropriation in the current year's budget. These amounts are reserved on the year-end financial statements and paid out in the subsequent year. Our testing of the City's fund balance reserved for encumbrances noted certain departmental encumbrances were not adequately supported by known obligations.

We recommend that the City and School review its' procedures for year-end encumbrance reporting and implement procedures to ensure the accuracy of known obligations for encumbrances.

Status – 2014 Audit:

The City and the School has reviewed its' procedures for year-end encumbrance reporting and implemented procedures to ensure the accuracy of known obligations for encumbrances.

3. Improve Bank Account Reconciliations

Prior Year Comment:

The City has procedures in place to reconcile the City Auditor's general ledger to the Treasurer's records for cash and investments on a monthly basis. The Treasurer is maintaining a cashbook and performing monthly individual bank reconciliations. However, we noted that improvements could be made on the monthly individual bank account reconciliations. During our audit we noted a reconciling item on one of the bank account reconciliations that had been used as a reconciling item for several months. Upon review the item generated an adjustment to the general ledger. We recommend that all reconciling items be properly reviewed and researched to insure they are properly recorded. We would point out that this item was identified by City's monthly bank account reconciliation procedures.

The City Treasurer's office has made improvements to the individual bank account reconciliations in fiscal year 2013. However, in fiscal year 2014 there was a change in key personnel in the City Treasurer's office. We reviewed certain subsequent to year-end transactions and noted that the individual bank statement reconciliations were not being completed in a timely manner (excess of a month). We believe that this situation has not risen to a material weakness or significant deficiency in internal control, but if attention to this matter is not given it could lead to a one of those categories. We recommend the City monitor this situation to insure the individual bank reconciliations are performed in a timely manner.

Status – 2014 Audit:

The Finance Director has made timely reconciliation of the cash book a priority for the Treasurer's Office and is working to improve internal controls and processes in that office.

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 – 2014 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. We encourage the City to continue the process of researching and reviewing the older tax receivables.