

CITY OF NORTHAMPTON, MASSACHUSETTS

MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2016

CITY OF NORTHAMPTON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2016

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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, 2016, 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

December 15, 2016

INFORMATIONAL ITEMS

A. Documentation of Internal Controls in Accordance with Uniform Guidance

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 referred to as 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 concise circular. The new guidance will be in effect for all federal awards, or funding to non-federal entities, received on or after December 26, 2014, and will be applicable to non-federal entity audits for fiscal years beginning on or after that date (fiscal year 2016). As part of the new guidance, OMB has raised the monetary threshold for "single audits" from \$500,000 to \$750,000 of Federal funds expended in a fiscal year. The City historically has been above the new threshold and should anticipate continuing to obtain a "single audit".

Included in the new guidance is the requirement that the City's internal control structure be in compliance with a recognized internal control framework such as the "Standards for Internal Control in the Federal Governments", as issued by the Comptroller General of the United States (the Green Book), or the "Internal Control Integrated Framework", as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO internal control framework is generally accepted as a best practice within a government environment. The COSO internal control framework incorporates five inter-related components of internal control which apply to staff at all organizational levels. Internal control components are supported by seventeen principles. Each principle has important characteristics, called attributes which explain the principles in greater detail. The entire framework can be found online at the COSO website (www.coso.org/IC.htm).

One of the goals of the new Uniform Guidance is to elevate internal control to an accountability measure. The overarching principal is that internal controls provide reasonable assurance, that a Federal grant recipient will achieve its objectives through:

- Effective and efficient operations
- Reliable reporting
- Compliance with applicable laws and regulations

The City has incorporated many elements of the COSO framework into its existing internal control structure. However, in order to be in compliance with the new Uniform Guidance, management should evaluate, assess and document the government's internal structure and incorporate elements of the COSO Framework, where needed.

We recommend the City familiarize themselves with the COSO internal control framework and begin documenting their internal control system over federal awards.

B. Future GASB Statements - OPEB

Comment:

The GASB has issued new pronouncements that will significantly impact the accounting and financial reporting requirements for Other Post-employment Benefits (OPEB). The new standards issued are as follows:

- GASB Statement No. 74 – *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*. This statement is required to be implemented in fiscal year 2017
- GASB Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. This statement is required to be implemented in fiscal year 2018

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.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Ambulance Receivable

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).

City's Response:

The City is taking steps to cross check monthly ambulance receivable reports to the general ledger.

2. Review Revenue Subsidiary Ledger Accounts – Enterprise Funds

Comment:

During our audit we noted revenue subsidiary ledger accounts in the enterprise funds (water, sewer, stormwater) contained multiple revenue sources. For instance, the revenue account "interest" contained both investment income and interest charged on late payments of user charges. We reviewed this matter where we felt the need for separate revenue accounts with personnel at time of fieldwork.

We recommend the City review the revenue subsidiary chart of accounts to determine if further segregation of current revenue accounts is needed to account for significant revenue streams amongst the funds. We believe this will enhance the Town's financial reporting.

City's Response:

The City has created additional revenue accounts to separate these revenues streams within the various enterprise funds to provide additional detail for Fiscal Year 2017.

3. Health Insurance Withholding Account

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.

City's Response:

The City will be taking steps to train new staff in the Human Resources Department to implement monthly reconciliations.

4. Water, Sewer and Stormwater Accounts Receivable

Comment:

During our current audit we noted that the accounts receivable subsidiary records for water and sewer were not effectively reconciled to the general ledger. We have proposed several adjustments to the general ledger as a result of our audit testing. Effective internal controls require timely and proper reconciliation of the accounts receivable subsidiary records to the general ledger. Failure to perform these tasks timely and properly increases the risk of misstatement due to error or fraud, prohibits the safeguarding of assets and does not provide for accurate a timely financial reporting.

We recommend that effective procedures be implemented to reconcile the water and sewer accounts receivable subsidiary records to the general ledger on a monthly basis. All variances should be investigated and resolved in a timely manner. When the variance has remained at a consistent amount an adjustment can be made to the general ledger.

City's Response:

The City will be taking steps to train staff in the Collector's office to implement monthly reconciliations.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Inventories

Prior Year Comment:

Our audit indicated the City does not maintain an inventory on materials and supplies that are ordered by City departments. The items that should be classified as inventory consist of equipment, fixtures and materials of City departments that are not classified as fixed assets. Once the inventory is established, the City should maintain the inventory on a perpetual basis, where purchases and requisitions throughout the year are maintained. With this system the City can determine if the inventory is accurate at various times throughout the year.

We recommend that City Departments implement a perpetual inventory system to ensure proper control over materials and supplies purchased.

Status – Fiscal Year 2016 Audit:

The same situation exists at June 30, 2016. The City has taken our recommendation under advisement and is currently assessing the current situation.

2. Tax Withholdings

Prior Year Comment:

During our audit we reviewed the tax withholding procedures. Our testing noted that one payment to the Internal Revenue Service was 13 days late. As a result of this late payment the City was assessed and paid a penalty of \$14,495.

We recommend that the City review its procedures with regards to payments of tax withholdings to ensure compliance with laws and regulations.

Status – Fiscal Year 2016 Audit:

The City has reviewed its procedures for payment of tax withholdings and has made improvements.

3. Review Employee Surety Bonds

Prior Year Comment:

The Treasurer and Collector positions currently have surety bond amounts of \$250,000 and \$150,000, respectively. The current recommended bond amount, as outlined in the Massachusetts Collector and Treasurer's manual, applicable to the Treasurer and Collector for the City of Northampton would be \$300,000 and \$250,000, respectively. We recommend that management review the Treasurer/Collector's surety bonds to determine if the amount should be increased.

Status – Fiscal Year 2016 Audit:

The City has reviewed it's employee surety bonds and have increased the bond amounts for the Treasurer/Collector position to the recommended amounts.

4. Departmental Receipt Procedures

Prior Year 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.

Status – Fiscal Year 2016 Audit:

The Treasurer/Collector is in the process of writing formal procedures for departmental receipts and will be meeting with departments to train staff in new procedures.

5. 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 2016 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 in FY2017.