

**TOWN OF FAIRHAVEN, MASSACHUSETTS**

**Management Letter**

**For the Year Ended June 30, 2018**

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Additional Offices:

Nashua, NH  
Manchester, NH  
Greenfield, MA  
Ellsworth, ME

To the Board of Selectmen  
Town of Fairhaven, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Fairhaven, Massachusetts as of and for the year ended June 30, 2018 (except for the Fairhaven Contributory Retirement System, which is as of and for the year ended December 31, 2017), in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 over financial reporting.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The Town's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance, including those overseeing the financial reporting process, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

*Melanson Heath*

March 25, 2019

## **PRIOR YEAR RECOMMENDATIONS:**

### **1. Develop a More Formal Risk Assessment Process**

#### Prior Year Issue:

In the prior year, we recommended the Town implement a more formal risk assessment process, including a written assessment of potential risk areas and policies/procedures to mitigate these risks.

#### Current Year Status:

This was not addressed during fiscal year 2018.

#### Further Action Required:

We recommend the Town continue working to develop a comprehensive financial management and risk assessment policy framework that can be used by all departments to monitor and mitigate risk. This framework should include, but not be limited to, a formal assessment of the risks associated with the use of information technology, including controls over user access to the Town's financial software and controls over electronic banking transactions.

#### Town's Response:

The Town has collected a few samples of other Town's risk assessment policies and in FY19 we are addressing this issue.

### **2. Consider Reauthorizing OPEB Trust Fund Using New Legislation Wording**

#### Prior Year Issue:

In the prior year, we recommended the Town review the new language in MGL Chapter 32B Section 20 and consider reauthorizing the OPEB Trust Fund by formally re-accepting that provision.

#### Current Year Status:

This was not addressed during fiscal year 2018.

#### Further Action Required:

We continue to recommend the Town consider reauthorizing the OPEB Trust Fund using the new legislation wording. This will provide the Town with increased flexibility in investment and administrative options.

#### Town's Response:

The Town has an article addressing this at the STM on May 4, 2019.

## **CURRENT YEAR RECOMMENDATION:**

### **3. Improve Controls Over Student Activity Funds**

The Massachusetts Department of Elementary and Secondary Education guidelines require an annual audit of the student activity funds. An audit is required if a student activity fund has greater than \$25,000 in expenditures in a fiscal year. Student activity funds with less than \$25,000 in expenditures should be audited once every three years. An audit performed by an independent audit firm should be performed at least once every three years for those funds with activities greater than \$25,000. In the intervening years, the audit may be performed by a responsible individual who is independent of the student funds. As a result of these audits, an audit report must be issued.

The School Department's student activity funds have not been audited since the external audit performed for fiscal year 2016, which was performed in 2018. That audit resulted in an audit report that summarized numerous areas where controls should be improved. These issues could result in an increased risk of errors or irregularities occurring and going undetected.

During our testing in 2018, we noted that the School Department did not have procedures in place to reconcile the cash balance per the student activity fund ledger to the total cash balance of the checking and savings accounts per the bank. This was included as a recommendation in the fiscal year 2016 student activity fund audit report.

We recommend an audit of the student activity funds be performed for fiscal year 2017 and fiscal year 2018. Additionally, we recommend the improvements identified in the 2016 student activity fund audit report be implemented. Furthermore, we recommend the student activity fund ledger be reconciled to the total cash per the bank on a monthly basis.

#### **Town's Response:**

The School's activity funds are currently under audit.