



## **TOWN OF FAIRHAVEN, MASSACHUSETTS**

Management Letter  
For the Year Ended June 30, 2022

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To the Select Board  
Town of Fairhaven, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Fairhaven, Massachusetts (the Town) as of and for the year ended June 30, 2022 (except for the Fairhaven Contributory Retirement System, which is as of and for the year ended December 31, 2021), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

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.

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Merrimack, New Hampshire  
Andover, Massachusetts  
Greenfield, Massachusetts  
Ellsworth, Maine



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.

This communication is intended solely for the information and use of management, the governing body, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Melanson*

Andover, Massachusetts  
March 29, 2023



**PRIOR YEAR RECOMMENDATIONS:**

**1. Expand Chart of Accounts**

The Town currently records the activity associated with multiple opinion units within fund 084 in the general ledger. As a result, numerous reclassifying adjustments are required to properly present activity in the respective fund financial statements in accordance with Generally Accepted Accounting Principles.

The following accounts should be recorded as separate funds in the general ledger:

- Internal service fund (proprietary funds)
- Stabilization fund (governmental funds)
- Sewer stabilization fund (proprietary funds)
- Various special revenue funds (governmental funds)

Additionally, the expendable portion of trust funds is reported in fund 082 and the nonexpendable portion is reported in fund 081 in the general ledger. As a result, numerous reclassifying adjustment are required to properly present activity in permanent trust fund (governmental funds) and private purpose trust fund (fiduciary funds) financial statements. These accounts should be classified in the general ledger based on the type of each trust fund, instead of expendable versus nonexpendable portions.

We recommend the Town expand the general ledger chart of accounts to eliminate the need for these reclassifying adjustments. Implementation of these recommendations will result in the proper presentation of the above noted funds.

**Town's Response:**

The Town Accountant will work to fulfill the recommendation to expand the Chart of Accounts with separate funds for internal service, stabilization, sewer stabilization, and various special revenue funds.

**CURRENT YEAR RECOMMENDATIONS:**

**2. Other Issues**

In the current year, we identified the following areas where improvements can be made:

- Trust Fund cash balances should be reconciled with corresponding general ledger balances on a quarterly basis. Specifically, individual trust fund cash balances should

be reconciled between the investment statements and the general ledger on a quarterly basis.

- Cash reconciliations should be consistently approved by a preparer and a reviewer.
- The School Department should ensure the ending balance in the School Lunch Fund is in compliance with Title 7 *U.S. Code of Federal Regulations* (CFR), Section 210.14.
- The Town should formalize information technology controls by: (1) establishing a written backup and data retention policy/schedule; and (2) establishing formal protocols for setting up, modifying, and terminating user access rights, including a requirement for written authorization for all changes.
- During our audit, we reviewed the level of access employees have to the Town's payroll software. We found that multiple employees had the ability to add new employees and change pay rates in the payroll software. As a result, a lack of segregation of duties exists since individuals involved with processing payroll had the ability to add new employees and change pay rates. We recommend the Town establish the following compensating controls to mitigate the risk associated with the segregation of duties issue:
  - On an annual basis, the Town should run a report of all employees included in the payroll system and verify authenticity of each employee.
  - On a quarterly basis, the Town should run a report of all changes made to employees' pay rates from the payroll system and verify the changes to approved personnel action forms.

Furthermore, we recommend that documentation for the recommended compensating controls mentioned above be retained.

**Town's Response:**

- The Town will work to implement reconciliations quarterly, however, at this time, the Town is burdened with staff shortages and we will do our best to implement.
- The Town will make sure that cash reconciliations are reviewed and approved.
- The School Department is aware and will work to expend the funds in FY 2023.
- The Select Board have included the IT formal written policy in the agenda for review and approval at the next meeting on May 15, 2023.
- The Town has implemented additional procedures whereas the Benefit Administrator has the responsibility of inputting and deleting employees in the payroll software. The Benefits Administrator also is responsible for pay rate adjustments. The recommended reports will be run and reviewed to assist with the risks associated with the segregation of duties issue.

### **3. Prepare for Governmental Accounting Standards Board (GASB) Statements Numbers 94 and 96**

The GASB has issued Statement No. 94, “*Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs)*.” The primary objective of this Statement is to improve accounting and financial reporting of PPPs and APAs. PPP is an arrangement in which the Town contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction. APA is an arrangement in which the Town compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The GASB has issued Statement No. 96, “*Subscription Based Information Technology Arrangements*” (SBITAs). This Statement provides guidance on the accounting and financial reporting of SBITAs for the Town as an end user. GASB 96 results in a right-to-use subscription intangible asset, which is primarily offset by a corresponding subscription liability for accrual funds, as well as government-wide financial statements, and requires new note disclosures.

These Statements are effective for fiscal year 2023 and have similarities with Statement No. 87, *Leases*, that the Town implemented for fiscal year 2022.

#### **Town’s Response:**

The Town Accountant will prepare for GASB 94 & GASB 96 and will await further information from the auditors to prepare to implement these new GASBs.