

TOWN OF FAIRHAVEN, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2015

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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, 2015 (except for the Fairhaven Contributory Retirement System, which is as of and for the year ended December 31, 2014), 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, 2016

STATUS OF PRIOR YEAR RECOMMENDATION:

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 the policies/procedures that have been implemented to mitigate these risks. We also recommended the Town continue performing rotating internal audits of all departments that collect Town receipts.

Current Year Status:

The Town has established formal cash management, debt, receipt, and fraud policies, which were approved by the Board of Selectmen.

Further Action Required:

We recommend the Town continue working to develop of 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 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. We further recommend the Town consistently perform rotating internal audits of the various departments that collect Town receipts.

Town's Response:

The Town will be work on a set of comprehensive policies and procedures for the coming year.

CURRENT YEAR RECOMMENDATION:

2. Prepare for New Single Audit Requirements

In fiscal year 2016, there will be significant new requirements related to single audits. In addition to raising the threshold for requiring a single audit from \$500,000 to \$750,000, there are new requirements of OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (UG) for single audits. The following summarizes the major changes:

- Financial and program management –
 - Establish written policies and procedures for the following:
 - Cash management
 - Determination of allowable costs
 - Employee travel

- Implement internal controls that comply with COSO’s “Internal Control Integrated Framework”
- Property standards – equipment –
 - Maintain property records that include description, serial/identification number, source of funding, acquisition date, cost, location, and ultimate disposition data
 - Conduct a physical inventory every 2 years and reconcile to property/fixed asset records
 - Implement a control system to safeguard property from loss, damage, theft
- Procurement –
 - Establish written policies and procedures for the following:
 - Procurement in compliance with the new procurement standards
 - Standards of conduct covering conflicts of interest
 - Process for conducting proposal evaluations
 - Maintain certain records to detail the history of procurement
 - Implement oversight procedures to ensure contractors perform in accordance with terms
- Subrecipient monitoring and management –
 - Establish written policies and procedures for the following:
 - Communication of award requirements
 - Responsibilities for monitoring subrecipients
 - Process for monitoring
 - Methodology for resolving findings
 - Requirements for audits

We recommend that the Town prepare for the single audit changes by training staff and establishing the aforementioned documented policies and procedures. This will help the Town to minimize the risk of new single audit compliance findings in fiscal year 2016.

Town's Response:

The Town will make sure that staff is trained on the new single audit requirements to ensure that they will be in compliance.