

CITY OF NORTHAMPTON, MASSACHUSETTS
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2020

CITY OF NORTHAMPTON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2020

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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, 2020, 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 charges 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 and Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

February 19, 2021

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Covid-19 – Impact on Operations and Procedures

Comment:

In March 2020, the Massachusetts Governor declared a state of emergency in response to the Covid-19 pandemic. The Covid-19 outbreak in the United States has resulted in economic uncertainties and has impacted operations for various business and governments in the Commonwealth. As a result of Covid-19's impact on the City's operations we like to remind the City of the following:

- There are various federal and state grants that have become available in response to the Covid-19 pandemic. These grants come with various compliance (i.e. single audit and procurement) and reporting requirements. The City does have procedures and policies in place to properly account and identify federal and state grants. It's very important that the City adheres to its policies and procedures with regard to these Covid-19 grants as it will have significant impact on its reporting and compliance requirements.
- Unemployment Fraud – Fraudsters will take advantage of any situation they can and the Covid-19 pandemic is no exception. Unemployment fraud is on the increase in Massachusetts as a result of Covid-19's impact on businesses. The City should implemented procedures to review unemployment notices and charges to ensure no fraudulent activity has occurred. Furthermore, if a fraud has occurred procedures should be implemented to properly track the fraudulent charges and the proper credit is given. These new procedures can be time consuming.
- As a result of the closure of the City Hall various personnel have been working remote and this can impact departmental, vendor and resident interactions and transactions. It is important that the City follow its procedures and controls in place for its significant accounts and transactions. The following are some examples of controls and procedures, (not a full comprehensive list):
 - Signatures approving expenditures and payrolls
 - Timely reconciliations of cash and investments
 - Timely reconciliations of receivables
 - Reimbursements for expenditures purchased by employees
 - Receipts are properly documented and turned over to the City's Treasury
 - Invoices are paid timely and are reported in the correct accounting period
 - Procurement laws are followed
- Revenue Shortfall and Declines – Covid-19 is having an impact on Cities and Towns revenues and collection rates for taxes (property and excise). The City should monitor its revenues and consider its impact on future budgets and financial condition.
- Inventory of Equipment – As a result of remote learning and working remotely the District has purchased additional equipment (technology and other) to achieve operating effectiveness. These purchases can be significant investment for the District. We recommend the District maintain inventory over equipment purchased and perform a hard count at year-end to ensure safeguarding of the District's equipment.

During this pandemic it can be tempting and easy to justify overriding the City's internal controls, policies and procedures in place. We would like to remind the City it is at times like this their controls, policies and procedures are at its utmost importance to be followed.

City's Response:

Bullet #1 – The City has adhered to the established procedures and policies to properly account and identify the COVID-19 federal and state grants to ensure reporting and compliance requirements.

Bullet #2 – Unemployment Fraud - The City always monitors unemployment for fraud. The COVID pandemic has increased the number of fraudulent claims, however, our HR department has been diligently monitoring the unemployment claims and providing our unemployment agent with information relative to every fraudulent claim. We recently received credits for numerous fraudulent claims that the city identified. The City will continue its efforts to monitor unemployment for fraud.

Bullet #3 – The City has established controls and procedures in place to ensure the continuity of government. There were no significant delays in the essential functions following the declaration of the state of emergency due to the pandemic. The downtown campus municipal buildings were closed to the public but the Auditor's, Assessor's and the Collector/Treasurer's Offices remained functioning with staff rotating working in the offices and remotely. An electronic signature program was established and now all contracts and Ch 90 request for reimbursements are circulated and signed electronically. Departmental approvals for accounts payable and payroll are either on hard-copies or electronically. There has been no disruption in the processing of payroll, procurement, reconciliations and accounts payables.

Bullet #4 – Revenue Shortfall and Decline - The City is monitoring the revenue and is cognizant of the impact COVID-19 may have on future budgets and financial conditions.

Bullet #5 – Inventory of Equipment – Information Technology Department have established procedures and internal controls for the purchasing, distribution and tracking of the inventory.

2. Implementation of Future GASB Statements

Comment:

In an effort to enhance financial information of a government's financial statements, the GASB is continually issuing new pronouncements that will effect what is required to be reported in a government's financial statements. Over the past couple years GASB has been active in developing new standards. It is important that the City be aware of the current and future statements. The following are some of new GASB pronouncements that will be required to be implemented in future fiscal years:

- GASB Statement No. 84 – *Fiduciary Activities*. This statement is required to be implemented in fiscal year 2020 (revised to 2021).
- GASB Statement No. 87 – *Leases*. This statement is required to be implemented in fiscal year 2021(revised to 2022).

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 to ensure proper implementation.

City's Response:

The City's financial team is updated and familiarized of current and future GASB statement by municipal associations (MGFOA, MMAAA, MMA), the DOR and the City's Independent Auditors.

3. Other Areas

- Review special revenue accounts.
- Record ambulance receivable on general ledger.

City's Response:

Review of special revenue accounts:

The Special Revenue Funds are reviewed and reconciled on a regular basis.

Record ambulance receivable on general ledger:

The ambulance revenue and activity is reconciled on a regular basis.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. 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 2017-2019 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. As of the date of our fieldwork there are still older personal property, real estate and excise accounts that need to be addressed, by either abatement, collection or refunds issued. We recommend the City clear-up the older property and excise accounts.

Status – Fiscal Year 2020 Audit:

The same condition exists.

City's Response:

Progress has been made in reviewing older outstanding receivables. The Collector/Treasurer continues to work with the Deputy Collector to resolve any discrepancies prior to abating the motor vehicle and boat excise amounts.