

TOWN OF NAHANT, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2019



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Management
Town of Nahant, Massachusetts

In planning and performing our audit of the financial statements of the Town of Nahant, Massachusetts as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the entity's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. This letter does not affect our report dated February 22, 2020, on the financial statements of the Town.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The Town's written responses to the matters identified in our audit have not been subjected to the audit 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 and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
June 9, 2020

TOWN OF NAHANT, MASSACHUSETTS

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Comments and Recommendations

Succession Planning

Comment

Over the past few years, the Town has experienced retirements in key positions. In general, Massachusetts municipalities are experiencing a high level of employee turnover due to retirements, as a result of an aging workforce in the government industry.

This highlights the importance of succession planning as part of the Town's overall strategic planning. Formal plans, policies and procedures should be in place to prepare for pending retirements and ensure those positions are filled with skilled replacements on a timely basis.

Recommendation

We recommend the Town develop and implement formal, written policies and procedures related to succession planning.

Management's Response

The Town is planning to develop and implement a succession plan. There is not a lot of turnover in staff and so opportunities to fill positions with candidates that can develop into the head of a department does not occur often. In the meantime, all staff are encouraged and sometimes required to attend school or training that will provide them the tools to advance if needed.

Information Technology

Comment

In the prior year Management Letter, we reported that the Town did not have written policies to address employees' use of information technology. As of the date of this report, written policies are in place for the Police, Fire and School departments.

Recommendation

For Town departments without such policies, we recommend implementation of an IT security policy governing end users of information technology. All employees should be required to acknowledge in writing that they understand and will adhere to the policy. The policy should address the following areas:

- Mobile devices
- Security awareness
- Acceptable use of technology
- Peripheral devices

Management's Response

The Town has received a regional Human Resources grant that will fund the development of an updated employee handbook, which will include a comprehensive IT security and Acceptable Use policy. We expect to have it finalized during FY2021. We will require each employee to sign off on that policy regarding mobile devices, security awareness, and acceptable use of technology and peripheral devices.

Risk Assessment and Monitoring

Comment

As reported in prior years, when internal controls are *initially* implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment (which includes fraud risk assessment), is one element of internal control.

The risk assessment should be performed by management-level employees who have extensive knowledge of the Town's operations. Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the Town's operations, its environment, and its processes. The risk assessment process should consider the Town's vulnerability to misappropriation of assets. It should also address operations that involve heightened levels of risk. When conducting the assessment, the following questions should be considered:

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?
- What prior internal control issues could continue to be problematic?

Once the areas vulnerable to risks have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted. The Town should consider what additional controls (if any) need to be implemented to reduce risk.

After risk has been assessed, periodic monitoring of the identified risk areas must be performed in order to evaluate the controls that have been implemented to mitigate the risks. Since control-related policies and procedures tend to deteriorate over time, the monitoring process ensures that controls are fully operational and effective.

We identified the Town has implemented an Employee Handbook. The Employee Handbook is an aspect of risk assessment and monitoring, but more extensive measures must be taken in order to fully establish a comprehensive risk assessment and monitoring program.

Recommendation

We recommend that management develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the Town's financial policies and procedures manual.

Recommendation (Continued)

We recommend that management develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

Management's Response

The Town currently keeps all assets over \$1,000 in the fixed asset software, One Squared, and periodically updates this list, as well as compare all assets to the insurance reports. The Town is working with the departments to strengthen internal controls in all areas listed above. Two key departments, Fire and Highway, have recently received new department heads who have created greater accountability in regards to asset management. The Town Administrator continues to develop a risk assessment programs to assist in this process and it is expected that this will be completed and formalized in the next 12 months.

Financial Policies and Procedures Manual

Comment

As reported in prior years, the Town's financial policies and procedures are well designed and functioning properly. However, we believe that preparation of a centralized formal (written) policy and procedures manual would improve and standardize the Town's financial policies and procedures. Inherent in any organization that operates without formalized written procedures are inconsistencies in everyday policies and procedures. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them.

As of the date of this report, the Town has a financial policies and procedures manual that is in draft form.

Recommendation

We recommend the Town take the necessary steps to finalize and implement the financial policies and procedures manual.

Management's Response

The Town is in the draft phase of our financial policies and procedures that the Collins Center has worked with us to formalize. They will be reviewed and approved by the Board of Selectmen and distributed to all departments.

Other Matters

Comment

In prior years, we reported various recommendations related to disaster recovery planning. The Town has implemented many of those recommendations. In addition, the Town has been able to maintain its finance and accounting (and other) operations during the challenges of the COVID-19 pandemic.

There are a few items associated with disaster recovery planning that the Town is planning to implement in the future, as follows:

- The Town has received a grant to update its hazard mitigation plan
- The Town's Information Technology consultant has recommended the Town establish network connectivity between and amongst different Town buildings
- The Town would like to digitize all paper records

Recommendation

We recommend the Town implement the items noted above.

Management's Response

The Town Administrator has met with the key contacts and is working to update the Hazard Mitigation Plan of 2014. The facility recovery aspect of this plan is undergoing further development in order to incorporate the views of the new Highway Superintendent. The plan is envisioned as being finalized within the next 12 months.

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