TOWN OF NAHANT, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2018

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, 2018, 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 March 19, 2019, 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
March 19, 2019

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JUNE 30, 2018

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Comments and Recommendations

Treasurer/Collector's Office

<u>Comment</u>

During fiscal year 2018, there were several deficiencies related to the operations of the Treasurer/Collector's office. A summary of the primary deficiencies were as follows:

- Cash receipts were not consistently being deposited timely

- Cash receipts were not consistently being recorded timely

- Monthly bank reconciliations were not performed timely

- Monthly accounts receivable reconciliations were not performed timely

- There was a lack of cross-training of assistant staff

As a result of these matters, the Town hired an outside consultant to review the operations of the Treasurer/Collector's office. In September of 2018, the Treasurer/Collector left the position. As such, the consultant had to be utilized to perform and complete monthly reconciliation procedures in order for the Town to close its financial records for fiscal year 2018. In addition, the Town had to hire an interim Treasurer/Collector to fill the vacancy in the position.

The deficiencies within the Treasurer/Collector's office created several consequences, such as:

- Additional burden on the operations of the Town Accountant's office

- Incurring costs for a third-party consultant

- Lack of timely financial reporting, including interim internal reporting that is utilized by department heads for their decision-making and operations

- Delays in the conducting of the annual audit

The circumstances encountered in fiscal year 2018 highlight the importance of the Treasurer/Collector's office in the overall financial operations of the Town.

<u>Recommendation</u>

We recommend the Town place additional emphasis on ensuring the Treasurer/Collector's office has the proper resources to operate effectively and promote quality and timely financial reporting.

Management's Response

The Town has hired a new Treasurer/Collector beginning in fiscal year 2019 who has been trained by the interim Treasurer/Collector. In addition, the Assistant Treasurer has had increased training on the duties of the Treasurer/Collector to increase the efficiency of the office and reduce the burden on the Town Accountant's office. During fiscal year 2019 the Treasurer/Collector's office implemented an in-office check scanner to allow for timely deposits of checks received, creating more timely recordings of the receipts. Bank deposits are completed on a weekly basis for cash received and bank reconciliations have been brought up to date. Going forward the Treasurer/Collector's will continue to improve efficiency and work to get financial reporting done on a timely basis.

Succession Planning

<u>Comment</u>

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.

<u>Recommendation</u>

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

<u>Management's Response</u>

The new Town Administrator began in August of 2018, is currently assessing the personnel, and will soon begin the development of a succession plan. First, it is important to hire personnel in key positions and then adjust the future succession plan accordingly. Recruiting internships from local colleges will be part of this plan as well as properly preparing the town's finances for eventual retirements of employees.

Information Technology

<u>Comment</u>

In the prior year Management Letter, we reported various deficiencies related to the Town's use of information technology. During the fiscal year 2018 audit, we identified that the deficiencies reported in the prior year were not resolved.

The deficiencies are summarized as follows:

- There are no written policies to address employees' use of information technology

- Some of the Town's software programs do not support proper segregation of duties through technical access rights, such as password requirements. In addition, the password requirements for programs with technical access rights could be strengthened.

- Periodic reviews of network and application user accounts are not performed to ensure only current employees and approved business partners have active user accounts

<u>Recommendation</u>

We recommend the following:

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

- For software programs that do not allow for access passwords, implementation of control measures to require a periodic review of user access logs to ensure no unauthorized access to such programs has occurred

- For software programs that do allow for access passwords, implementation of stronger password requirements, as follows:
  - o Regular Users:
    - Minimum length of 8 characters
    - Complexity enabled (upper case, lower case, alpha numeric, special character)
    - Minimum password age of 1 day; maximum password age of 90 days
    - 12-24 passwords remembered

Recommendation (Continued)

- System Administrators:

  - Minimum length of 15 characters
  - Complexity enforced (Upper case, lower case, alpha numeric, special character)
  - Change frequency of 60 days enforced
  - Password history of 24

  If stronger and more complex administrator passwords cannot be implemented due to system limitations, then it should be implemented via written policy.

- Implementation of annual (at a minimum) procedures to compare network and application user accounts to a list of current employees to validate only current employees and approved business partners have active user accounts. Documentation must be maintained to provide evidence of these periodic reviews.

Management's Response

Policies regarding information technology will be developed and provided to Town employees for their acknowledgment. Currently, all users have separate credentials to the computer network and data is locked down by user and/or group. Users can only see department information or data that is relevant. Finance applications contain an added level of security and separate login passwords are required for access. Only authorized users have access.

Nahant town hall has only one firewall with no external access available. Security testing (penetration test and vulnerability assessment) are completed annually and has functioned to verify system security. In addition to the testing, the system receives internal upgrades and patches to all workstations and servers.

When a User leaves the system, the IT Specialist disables the account and deletes the User as soon as a new hire is on-site. User accounts are deleted from finance software immediately. New Users are reported to the manager and relevant data is provided to the new hire.

The Town will work to routinely assess and make modification to user passwords in order to remain current with Town policy and to ensure system security.

This past year, the Town hired HIQ Computers as our IT specialists.

Risk Assessment and Monitoring

<u>Comment</u>

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.

<u>Recommendation</u>

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. The Town Administrator continues to develop a team of managers that will be tasked with implanting risk assessment programs to assist in this process. This is a rolling process but 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.

Such a manual should include policies and procedures relative to all financial functions and processes, including, but not limited to, the following:

- Cash receipts
- Cash disbursements
    - Payroll
    - Vendor
- Billing procedures
- Cash and accounts receivable reconciliations
- Debt issuance procedures
- Recordkeeping requirements
- State and federal financial reporting requirements
- Administration of student activity funds
- Month-end and year-end closing procedures

The manual should also clearly define the objectives, responsibilities and authorizations for all employees/job positions.

The use of written policies, procedures, and job descriptions in conjunction with specific assignment of responsibilities would increase supervisory personnel's effectiveness. Such written documents would decrease the time spent on supervision of clerical personnel and in attempts to define job responsibilities in the event of employee turnover.

Recommendation

The Town has prepared a few sections of the manual (payroll and vendor cash disbursements, accounts receivable reconciliations and debt issuance procedures). We recommend management continue its progress towards designing and implementing a formal financial policies and procedures manual.

Management's Response

The Town is continuing to design and implement formal financial policies and procedures and to insert them into a centralized manual. A recent turn over in the Treasurer/Collector position has slowed this process, but the Town Administrator is confident that a draft set of policies and procedures will soon be finalized and submit for approval by the Board of Selectmen. The Advisory and Finance Committee, as well as the School Committee, will play a role in this process and all three major committees will accept these future policies.

Develop and Document a Disaster Recovery Plan

<u>Comment</u>

As reported in prior years, the Town has property insurance; however, it does not have a plan of action in case its offices should be destroyed by a fire, natural disaster such as a flood or tornado, or a bombing or other terrorist act. Such a disaster could strike at any time, perhaps without warning. In that case, the Town would have to act quickly to take steps critical to assessing and recovering from loss of, or damage to, its premises; furniture and equipment; and electronic data.

A well-thought out and documented disaster recovery plan would help Town personnel act quickly and appropriately at a time when the stress and disruption of a disaster might adversely affect their memory, emotions, and judgment. It would also help others take charge in place of managers who might be lost, injured, or otherwise unavailable at the time of the crisis.

As part of developing a disaster recovery plan, arrangements should be made for protection of files and for use of backup space, equipment and furniture, or services should a disaster occur. In addition, while developing the plan, management personnel could take the opportunity to reassess the adequacy of its property insurance and to learn about some of the financial assistance that might be available to the Town after a disaster so that such assistance could be requested as quickly as possible.

<u>Recommendation</u>

The Town has made improvements in this area, such as document back-ups and off-site storage of software. To continue its progress, we recommend management develop and implement a complete and formal disaster recovery plan. The disaster recovery plan should be documented and at least one copy stored in a secure, off-site location. We suggest that the documentation include the following:

- A list of key contacts, including all employees and their emergency contacts, insurance companies, key suppliers and customers, and important professional services such as restoration specialists
- A current schematic showing how the computer system is designed and connected
- A current, complete set of documentation for all of the operating systems and application software (including version numbers)
- A copy of the schedule for the off-site storage of backup data and programs
- A list of safety and community services that might be needed
- A list of pre-arranged temporary alternative work sites
- A list of probable equipment and supplies that would be needed for recovery operations and related vendors

The disaster recovery plan should be reviewed, updated, and tested at least annually. This will allow the disaster team members to assess the plan's continued appropriateness and feasibility in light of current conditions and to become familiar with implementing each step of the plan so that they could act more quickly and decisively at the time of the disaster.

Management's Response

It is expected that a complete disaster recovery plan will be in place within the next 12 months. The Town Administrator has applied for funding to update the Town's Hazard Mitigation Plan. The facility recovery aspect of this plan is undergoing further development as we continue to build a new management team. The plan is envisioned as being finalized within the next 12 months.

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