



**Powers &
Sullivan, LLC**
CPAs AND ADVISORS

TOWN OF TOPSFIELD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2023



Powers & Sullivan, LLC
CPAs AND ADVISORS

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To the Honorable Select Board
Town of Topsfield, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Topsfield, Massachusetts (Town) as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures that are appropriate in the circumstances 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.

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 suggestions concerning those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Town personnel and 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.

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

Powers & Sullivan LLC

December 19, 2023

TOWN OF TOPSFIELD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2023

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Prior Year Comments

Capitalization Threshold

Prior Year Comment

The Town's current policy is to capitalize assets with values greater than \$5,000 and a useful life of greater than one year. The capitalization threshold is the minimum cost at which capital assets will be reflected in the Town's full-accrual financial statements as capital assets, and depreciated over their useful life, rather than being expensed in the year of the purchase.

Town should establish a capitalization threshold that will capture all material long-term capital assets. The threshold should be established to avoid the time and cost of capitalizing immaterial items that would not change the information needs of the Town's external financial statement users. The Town currently reports net governmental capital assets of \$37.8 million and net water enterprise fund capital assets of \$16.1 million. Based on these totals, the Town could increase the \$5,000 capitalization threshold and streamline the time and cost of accounting for capital assets without significantly impacting the full-accrual financial statements.

Capitalization is primarily a financial reporting matter. While it is essential to maintain control over all potentially capitalizable items, there are more efficient means, other than capitalization, for accomplishing this objective in the case of the Town's smaller capital items. It may be useful, for a listing of smaller capital items to be used as inventory control that has a much lower threshold than the assets capitalized for the Town's financial statements. This would typically be done at the department level, where the smaller assets are managed.

We recommend that the Town consider increasing the threshold for capitalizing assets for financial reporting purposes and establish a policy that will eliminate the need to capitalize and depreciate smaller items that will not materially add value to the financial users.

Current Status – Unresolved

The Town is in the process of bringing several policy updates to the Board for approval, which includes a \$10,000 capital asset threshold request. The capital asset threshold of \$10,000 is expected to be approved for fiscal year 2024.

Recording Activity Directly to Fund Balance

Prior Year Comment

A significant number of revenue and expenditure transactions were recorded directly to fund balance accounts in the general ledger rather than to the subsidiary revenue and expenditure ledgers. As a result, it is necessary for the Town to maintain an excel spreadsheet to account for the revenue and expenditure activity that is booked to fund balance.

Recording amounts directly to fund balance prevents the general ledger from reporting an accurate and complete account of all financial activity and circumvents the budgetary controls in place in the appropriation ledger. Consequently, numerous accounts had to be manually analyzed to accurately report all revenues and expenditures. This manual process increases the risk of error and inhibits the Town's ability to produce accurate financial data directly from the general ledger system.

We recommend that revenue and expenditure activity be recorded directly to the subsidiary ledgers rather than fund balance. Fully utilizing the general ledger subsidiary accounts will allow for accurate and more timely reporting and be less prone to errors.

Current Status – Unresolved

During fiscal year 2023, a portion of the revenue and expenditure activity was recorded to the subsidiary ledgers, however, for the majority of the Town's funds, the activity continued to be recorded to fund balance and was tracked on a spreadsheet.

Framework for Assessing and Improving Cybersecurity

Prior Year Comment

Throughout an organization's normal course of business comes the need to collect, transmit, and store extensive amounts of personal and financial information, both in paper and electronic form, relating to residents, vendors and employees. The use of technology has become a driver in helping organizations stay current and succeed. However, the sharing and compilation of this information lends itself to increasing the organization's vulnerability to either a cyber computer attack, ransomware attack, or a security breach, all are considered cybersecurity attacks. Management must be aware of the risks associated with the collection of this information and be diligent in implementing the proper policies and procedures to help to expose these risks. While impossible for an organization to eliminate all risks associated with a cybersecurity attack, an organization can take a variety of steps to mitigate its exposure, satisfy its governance responsibilities and help to minimize the impact should an attack occur.

Because management is ultimately responsible to develop, implement and operate an organization's cybersecurity risk management program, management is ultimately responsible for developing, and presenting to the organization an overview of the entity's cybersecurity risk management program.

The first step in understanding an organization's risks and working to develop and implement an effective cybersecurity plan, an organization needs to conduct a risk assessment and understand where its greatest exposure and vulnerabilities lie. This can be completed internally if the organization has an experienced information technology team, or there are many organizations that employ experienced professionals in the information technology arena to assist in the risk assessment and implementation if desired.

Once a risk assessment is completed, the next step is to develop and implement a cybersecurity risk program which needs to be continually reviewed and updated as technology changes. This response program should be tested to determine if the proper policies and procedures have been implemented to minimize the potential costs of a cyber-attack.

The obvious benefit to conducting a risk assessment is having the knowledge and an objective identification of the organization's areas where exposure to risks is more prevalent and allows for the development of a roadmap to address the remediation of these risks.

Some of the main areas of review that should be incorporated into the risk assessment are as follows:

- Electronic Records, Paper Records (Human Resource Records, Bank Statements, Payroll Records), Resident Data, Employee Data, Physical Security of hardware and software, Any Third Party or Vendor exposure, Password Security, E-Mail Security (Understanding the risks of malware and ransomware), Mobile phones and Portable Storage Devices, System Backup Procedures, Virus Protection Software, Data Encryption, Document Retention and Destruction Policies, Use of Unauthorized Software, Ongoing Employee Training.

Risk management is the ongoing process of identifying, assessing the risk, and developing a plan to address the risks. In order to manage their risk, organizations should understand what the likelihood is that an event will occur and assess the resulting impact of the event. This will assist the organization in developing their own acceptable level of risk tolerance and help to prioritize the areas in which internal controls should be strengthened.

We recommended that management complete the development and implementation of a cyber security risk assessment program and implement policies and procedure to mitigate the identified risk to an acceptable level.

Current Status – Unresolved

The Town has begun assessing and improving cybersecurity during fiscal year 2023. The Town is a member of the Northshore Regional IT Cohort, which is assisting the Town in obtaining grant funding for assessing and improving cybersecurity. Inno4 acts as the Town's IT department and is in the process of producing a plan for assessing the Town's cybersecurity. Cybersecurity assessments are expected to begin in fiscal year 2024 and the Town plans to use these assessments to implement policies and procedures to mitigate and identify risk to an acceptable level.

Reconciliation of Ambulance Receivable

Prior Year Comment

The Town maintains one ambulance receivable account on the general ledger. During the prior year audit, the Town switched ambulance providers, making it difficult to track outstanding balances from the previous provider. We noted that this account was not reconciled from the general ledger to the supporting detail. Reconciling both the activity and the ending balance of ambulance receivable is an integral internal control procedure and should be performed on a monthly basis. Without monthly reconciliations, the possibility of errors and/or omissions occurring and not being detected in a timely manner increases.

Current Status – Resolved

The Town and fire department made significant progress in identifying and tracking old outstanding receivable balances in fiscal year 2023. The Town also wrote off a portion of old outstanding ambulance balances and began reconciling monthly during the fiscal year. The Town intends write off additional old uncollectable outstanding receivable balances in fiscal year 2024.

Current Year Comment

Cash Reconciliations

Comment

The Town has experienced turnover in the Treasury department over the past year. Due to the disruption from the turnover, the Town's bank accounts have not been reconciled from the bank balances to the Treasurer's cashbook from July 2023 (fiscal year 2024) through October 2023, as of the beginning of December, 2023. As a result, the Treasurer's cash balances have not been reconciled with the Town's general ledger.

One of the most effective controls to detect and correct errors in a timely manner is the process of reconciling bank balances to the Treasurer's cashbook and then reconciling those reconciled Treasurer's cashbook balances to the Town's general Ledger. Performing these reconciliations monthly helps to ensure that errors are detected and corrected timely and that the Town's records are complete and accurate.

Recommendation

We recommend that the Town implement procedures to catch up on the cash reconciliations and to re-implement a process to insure that all reconciliations are done on a monthly basis and that any errors are corrected during this process.