

TOWN OF TEMPLETON, MASSACHUSETTS

MANAGEMENT LETTER

With

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

FOR THE YEAR ENDED
JUNE 30, 2017

TOWN OF TEMPLETON, MASSACHUSETTS

MANAGEMENT LETTER

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Members of the Board of Selectmen
Town of Templeton, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Templeton, Massachusetts (the "Town"), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 27, 2018.

We did not audit the financial statements of the Templeton Municipal Light Department, or the Water Department; these are departments of the Town. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts, is based solely on the report of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting to determine the audit 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.

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 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. We identified a number of deficiencies that are categorized as material weaknesses and labeled as such in this report. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, other material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli Clark and Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
March 27, 2018

OVERVIEW

Fiscal year 2017 was a critical year for the small Town of Templeton. Hamstrung by its inability to access the financial markets, the Town faced the possibility of deficit legislation to raise the \$1.4 million deficit it had incurred on its Elementary School construction project. Further, the possibility of abandoning the remainder of the multimillion dollar project it had worked so diligently to approve was a real threat.

At the forefront of the issue was the lack of financial audits from 2013 to 2016. Without these the Town would not be able to borrow to fund the \$1.4 million construction deficit that had accumulated or borrow for future construction.

With no other choice the Town procured the services of our CPA firm to complete audits for all the absent years. This proved to be a very daunting task as the lack of audits, leadership in the Executive Office and a revolving door of Town Accountants over the years had created an unacceptable financial and reporting situation.

In fact, the audits of those four years ending in 2016 uncovered 12 material weaknesses/noncompliance issues which all had sub issues attached as well as the existence of numerous deficits that needed to be raised. In all, a report of approximately 25 pages of findings, some very severe, was produced.

After several meetings with the Department of Revenue, the Town's financial advisors, our firm, the Massachusetts School Building Authority and others it was determined that the Town would be able to move forward and borrow if the voters would allow this at the May 2017 Annual Town Meeting. In addition, the Department of Revenue demanded a plan to cure all the issues highlighted by our firm in the audit.

With a 10-step plan in hand the Town diligently began to address the most severe findings. Given the quantity of findings it was obvious this would not be a simple fix and more than likely a multiple-year endeavor, so we agree with the Town's position to focus on the most damaging and severe items first.

In May 2017, the Town, upon approval from Town Meeting borrowed \$5 million; this allowed the Town to cure the construction deficits in play and have additional money to continue the project. This began a process of addressing and resolving numerous items over an 8-month period that led to all deficits being raised on the 2018 tax recap and the reporting of positive free cash for the first time in numerous years. In fact, during this time frame, the Town was able to address and satisfactorily resolve 8 of the 12 material items and several of the nonmaterial items.

The Town appears to have a good team in place; the extension of the Town Administrator's position by one-year assured the momentum would continue with strong leadership. The Town Accountant is now almost 3 years into the job and appears to be in for the long haul thus eliminating the revolving door transient philosophy to the Office, and lastly a new Treasurer was appointed at the beginning of fiscal year 2018.

We are proud of the work put forth by the Town in this most dire of situations and are confident if the Town maintains this attitude, that it will recover completely from this period of unacceptable practices.

In the body of this report, please review a matrix of prior year findings and their current year status; it will help understand the positive transition taking place.

INFORMATIONAL ITEMS

Statement on Auditing Standards No. 115 – Audit Communications

The American Institute of Certified Public Accountants (“AICPA”) several years ago issued Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (“SAS 115”). SAS 115 establishes standards and provides guidance on communicating matters related to an entity’s internal control over financial reporting identified in an audit of financial statements. In particular, SAS 115 provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements in the following order:

1. Control deficiency
2. Significant deficiency
3. Material weakness

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance and those items are identified as such in the applicable sections where they are discussed in this report.

Control deficiencies are not required to be communicated; however, the Town has requested that we also report that type of deficiency in this report in order for the Town to strengthen its internal controls and operating efficiency and for full transparency.

Fraud Prevention Measures

Fraud activity throughout the Commonwealth’s municipalities is at the highest level in recent memory, and the Town should consider taking action to better help protect itself from this unfortunate trend.

The Town should take a number of additional steps to address fraud risk including:

- 1) Perform a risk assessment of its most vulnerable business processes. This risk assessment should be performed at the highest level of the Town’s management with inputs and interaction with the Town Treasurer and its Town Accountant. The documented results of this risk assessment should be evaluated; significant flaws in the design of the Town’s current processes should be documents and steps for remediation taken.
- 2) Develop a written fraud policy. A Town-wide fraud policy should be developed and adopted by the Board of Selectmen. An effective fraud policy, among other things, clearly defines fraud, its employees responsibilities to report fraud, their rights should they become the subject of a fraud investigation, confidential mechanisms to report suspected fraud, the fraud investigation process, and disciplinary actions that the Town may take should an employee be found guilty of fraud. Once developed, this fraud policy should be clearly communicated to all employees, as well as, outside contractors and vendors.

- 3) The Town should perform periodic internal reviews of business processes, particularly those that include cash handling. The Town Treasurer and Town Accountant should identify departments whose business operations should be reviewed by evaluating the dollar amount and frequency of cash transactions within these departments. On a quarterly or semi-annual basis, a finance team should meet with these departments on a rotational basis to evaluate their current processes and, if necessary, recommend and implement enhancements and/or improvements. Furthermore, we recommend that this finance team establish dedicated days in its calendar for these procedures.

UPDATE OF PRIOR MANAGEMENT LETTER COMMENTS

The prior year management letter was very lengthy as it included comments for all years including 2013 – 2016. In addition, as discussed in the Overview section, there were 12 situations that were classified either as material weaknesses in internal control or noncompliance with laws and regulations. Each of these situations had multiple sub-issues attached to them.

Also, as discussed in the Overview section, the Town Finance Team and Executive Office worked diligently to improve upon these conditions throughout 2017 and during the course of our fieldwork as we made the Town aware of findings as we observed them.

In addition, some resolution was achieved through working meetings with the Department of Revenue and the many communications with our office throughout the course of the year. This resulted in 8 of the of the 12 material weaknesses/noncompliance with laws and regulation situations being resolved to our satisfaction.

The remaining material conditions include the following:

1. Cashbook to General Ledger reconciliation; while the Town made significant progress in this area, we found that the Treasurer's Office had a very difficult time working independently and contributed little to this effort. At the time of field work there was a fairly large variance that with our help was discovered and adjustments made to bring cash into balance. At least, a very good starting point now exists.
2. Accounts Receivable Reconciliations; variances continue to exist in the reconciliation process; these are the same variances for the most part that existed in the prior years. The biggest variance is foreclosure detail that has yet be produced by the Treasurer's Office. It may be time to adjust these items through journal entries to get to a good starting point.
3. Procurement; the issues with procurement were well documented and even led to an investigative process by the Inspector General; while the Town is attempting to get back on track through training and awareness of the laws, some issues did extend into early fiscal 2017 that preceded the current Town Administrator and thus the continued designation.
4. OPEB; the Town has not complied with OPEB in 7 years. A process to attempt to comply was begun, however since OPEB standards change effective fiscal 2018, we suggested the Town save the funds and keep the material weakness instead of fixing this for one year. Both we and the Town felt the cost/benefit was not worth it. The Town expects to comply with OPEB in 2018.

In the two pages that follow we have reported in matrix form the prior year conditions and the current status. You will note that many of the material items have been addressed and corrected while some of the less severe items are still open. This was done by design as the Town wished to correct the items of most significance such as the deficits and reporting issues as a priority. These are thumb line descriptions only; please refer to the letter issued on March 23, 2017 for the detail rather than include all of the detail again.

| | Prior Management Letter Classification | | Current Status |
|---|---|---|---|
| | Material Internal Control Weakness | Noncompliance with Laws and Regulations | |
| Budget Management | X | X | This was corrected as of fiscal year 2016 and continues to function properly. All deficits were raised on the 2018 tax recap. |
| General Fund Overdraft | X | X | This was corrected as of fiscal year 2015. There have been no instances since. |
| Audit and Single Audit Filing Deadlines | | X | This was corrected as of fiscal year 2016 and filings continue to be timely. |
| Capital Project Management | X | X | Central to this issue was the lack of audits to support financing; this was cured in May 2017 after four years of audits were completed and issued. A deficit of \$1.4 million related to the Elementary School was funded with a BAN and the MSBA aspects of the Elementary School project are now being managed out of the Town's Executive Office. In addition, the debt payments made improperly, were raised on the fiscal 2018 tax recap during the rate setting process. |
| Financial Reporting System | X | | The issues with the financial reporting system were corrected in fiscal year 2016. The Town finally brought the conversion issues associated with VADAR under control and the system operates at an adequate level to support the Town's reporting needs. |
| Lack of documented policies and procedures | X | | This is currently being addressed with a subsidy from the State Community Partnership Grant program and with the assistance of the Collins Center. As of the end of field work this had not been completed but drafts and an authorization from the Selectmen are expected in the near future. |
| Bank to cashbook reconciliation | X | | This was corrected as of fiscal year 2015; two old bank accounts were closed in fiscal 2017 and outstanding items were placed in tailings. The Town will now have an active tailings process. We will continue to monitor this as the Treasurer is new with no municipal experience and 2018 will be her first year. |
| Cashbook to General Ledger reconciliation | X | | While this process is much better, variances continued to exist during fiscal 2017 and this remains a material weakness . |
| Accounts Receivable reconciliation process | X | | Improvements continue to occur but there still exist variances in the process therefore this continues to be reported as a material weakness . |
| Procurement | | X | Improvements to procurement have been in place since the new Town Administrator started however certain issues from the past rolled into the beginning of fiscal year 2017. This will continue to be reported as a material weakness . Certain Town employees have completed a training by the Inspector General and all issues were reported to the Inspector General. We will continue to monitor this closely. |
| Timeliness of issuance of reports to the Department of Revenue | | X | This was corrected as of fiscal year 2016 and filings continue to be timely. |
| Other Postemployment Benefits | X | | Since a new accounting standard will be in play for fiscal year 2018 it makes most sense to correct this issue in 2018 and save the funds of adjusting this item for only 1 year; therefore the Town decided to accept this as a material weakness for one more year from a purely cost beneficial standpoint and we agree with this. |

| | Prior Management Letter Classification | | | Current Status |
|---|--|---|--------------------|--|
| | Material Internal Control Weaknees | Noncompliance with Laws and Regulations | Control Deficiency | |
| Betterments | | | X | With the assistance of the Department of Revenue and the Municipal Modernization Act; the Town is allowed to amortize the excess betterments over the life of the debt. This has been removed as a control deficiency. |
| Ambulance Write-Off policy | | | X | The Town does not have a formal ambulance write-off policy in place as of fiscal year 2017; this remains a control deficiency. |
| Sewer Receivables | | | X | Sewer commitments, collections, abatements and all maintenance related to sewer user charges are still completely handled by the Sewer Department without any input from the Collector. This does not allow for proper monitoring of accounts. This continues to be a control deficiency. |
| Sewer recovery and backup | | | X | While system and files are backed up, they continue to be stored in the same location thereby increasing the possibility of a loss of information in the event of a flood, fire, or natural disaster. This continues to be a control deficiency. |
| Indirect Cost Accounting | | | X | The comments relative to the indirect costs continue to exist. Until all parties can agree to cooperate this will remain a control deficiency. |
| Payroll withholding account reconciliations | | | X | A reconciliation process regarding the withholding accounts in the General Ledger has yet to be completed. This continues to be reported as a control deficiency. |
| Capital Asset tracking and reporting | | | X | The Town continues to rely on the outside accounting firm for its fixed asset reporting. This continues to be reported as a control deficiency. |
| Tax rate recapitulation | | | X | The issues with the Tax Recap were resolved with the setting of the tax recap for fiscal year 2018 taxes. This is no longer a control deficiency. |
| Compensated absences | | | X | The Town still does not have an adequate tracking system for vacation and sick accrual. This is still a control deficiency. |
| Treasurer/Collector | X | X | X | There were 17 comments under Treasurer/Collector; some repeated from earlier material weaknesses and compliance with laws and regulations. The majority of the findings were in place through the 2017 fiscal year. At the end of the year, the Treasurer was terminated and a new Treasurer was appointed. The new Treasurer had no municipal experience at the time of the appointment so we continue to monitor these findings closely as the Town attempts to improve the situation in the Treasurer's Office. |

GENERAL FINDINGS AND RECOMMENDATIONS – CURRENT YEAR

1. One of the Town's goals was to produce a set of financial statements earlier than at any point in the Town's recent history. With that in mind the Town closed the books before the end of the first week of August and we completed field-work shortly thereafter. However, both the Water Department and Electric Light Departments were unable to complete their financials in ample time for us to produce a timely financial statement. In fact, we did not receive completed audits for those departments until January 2018. Given the Town's borrowing schedule and need for financial statements it is critical that these financial statements are produced much sooner. *We understand the Water and Light Departments have switched audit firms and the goal is to produce financials much quicker in fiscal 2018. The Town should stay on top of this.*
2. Presently, the Town shares dispatch services with the Town of Phillipston. Templeton acts as the lead community and bills Phillipston annually. We observed that the fiscal year 2017 shared service assessment for \$60,000 was not billed timely during fiscal year 2017. The Town should put a process in place that assures that this bill is sent timely in the future.
3. The Town participates in the Statewide 911 Support and Incentive Program. Awards related to this program have not been accounted for properly and in fiscal 2017 a \$106,000 reclass of funds from the General Fund to the 911 S+I grant fund was required. Also, the Police Department has been reimbursed for personnel costs paid from the operating budget that have not been subsequently charged to the grant fund. The Department should plan to spend its entire grant award in the year of award in accordance with the approved grant budget.
4. Cash in the general ledger was overstated by \$37,000 (see matrix in prior section for cash comments) for a prior year transfer to the Town's Deputy Collector that was never reported by the Treasurer to the Town Accountant and thus not recorded in the general ledger. All money moved from Town accounts should be reported to the Town Accountant immediately for posting. The entry served to balance cash for both 2016 and 2017.
5. The amount raised on the fiscal year 2017 tax recap was overstated by \$25,000 for an Assessor's revaluation article that was also referenced in the main Town budget article and was inadvertently added to the appropriations twice on the tax recap. It appears that the Town has solved its tax recap balancing issues with the fiscal year 2018 tax recap however this is reported as a fiscal year 2017 item.
6. As highlighted in the matrix of the prior year comments, the Sewer Department continues to handle all aspects of the user charges associated with the activity. Therefore, the controls surrounding this activity are not as complete as they should be. The Town should research the manner in which its collection function has been legally established. Is it a Town Collector or Tax Collector? If the research concludes that the functions are that of a Town Collector, then we suggest that the Collector's office be given the responsibility of collecting the user charges. This will provide better segregation over the activity and provide a more efficient reconciliation process.