

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 YEARS ENDED

JUNE 30, 2013

JUNE 30, 2014

JUNE 30, 2015

AND

JUNE 30, 2016

TOWN OF TEMPLETON, MASSACHUSETTS

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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 years ended June 30, 2013, 2014, 2015 and 2016 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 23, 2017.

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. The results of our tests disclosed numerous items that we have identified that have been categorized as instances of noncompliance that are required to be reported under *Government Auditing Standards*. Those are identified as such in the body of this report.

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 & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
March 23, 2017

OVERVIEW

The Town of Templeton is a small community located in the central/western section of Massachusetts in Worcester County. With a population of about 8,000 residents, the Town has experienced significant challenges in many critical areas in the past several years. A Department of Revenue financial review in 2009 led to the Town creating a Town Administrator position in 2011. Since then the Town has been unable to keep the seat occupied for more than 2 consecutive years and has operated the last 3 years with acting Town Administrators serving limited terms on a part-time basis.

This lack of consistent, strong leadership has severely impacted the Town's ability to operate financially at an optimum level; and this has directly impacted most of the Town's critical financial functions. Serving under transient leadership is not a desirable situation to attract top talent to the critical financial positions.

Compounding this situation and similar to other small communities in this geographical area is the Town's demographics. These have caused the economic recovery since the 2008/2009 crash to be slower than in other areas of Massachusetts; some of which have experienced significant economic development in the last 5 or 6 years.

The following table identifies key economic metrics as compared to the State average:

	averages		% of State
	Templeton	State	
Per capita income	22,471	40,819	55.1%
Per capita EQV	69,470	163,847	42.4%
Single family tax	3,045	5,419	56.2%
Single family value	188,867	382,920	49.3%

These metrics clearly demonstrate that the Town is currently in a poor economic situation as the Town operates at or near 50% of the State average in most critical financial areas. This has resulted in an annual challenge to balance the Town's budget with an adequate level of services. We find that in these situations, it is the financial positions that suffer; these services are typically viewed as non-essential and are usually not allocated an adequate level of the Town's financial resources to operate at a sufficient capacity.

The inability to fund these services with competitive salaries, combined with the leadership issues previously discussed, has led to numerous applicants who have (1) failed in other communities, (2) are part-timers, (3) are laid off financial sector individuals, (4) are retirees, or (5) individuals who lack experience.

In fact, the Town has had four Town Accountants, three Treasurer/Collectors, and three Town Administrators since 2012.

This transient form of government is unacceptable and has created severe financial consequences described as follows:

- The lack of any audit oversight or audits since 2012. This led to the Town losing its ability to access the bond market, and lack of bonding is disabling to a community due to the annual infrastructure demands. Major projects are difficult, if not impossible, to fund all in one year from taxation; thus, the Town needs borrowing leverage to adequately satisfy this objective.
- Financial reporting to the State was seldom on time or nonexistent. In fact, a balance sheet has not been submitted to the State since 2012. This caused the Town not to have any certified free cash or enterprise fund retained earnings.
- Financial reporting has numerous errors, inaccuracies, and the lack of basic accounting procedures such as cash, bank, receivables, and interdepartmental reconciliations, none of which had been prepared since 2012.
- The 2013 and 2014 financial records had to be reconstructed almost completely from scratch.
- The Town was unaware of its appropriation balances due to the deficiency in its accounting records; this led to appropriation deficits totaling almost \$800,000 over the four years.
- The Town expended funds on a major school capital project without a borrowing due to the bonding issue described above. This has led to a \$1.3 million deficit in the project fund.
- Tax recaps were not prepared correctly.
- Capital projects have been mismanaged.
- Debt Exclusion (DE-1) forms have been incorrectly prepared.
- Illegal interfund borrowings were used to fund annual operations in at least 2 years.
- Numerous other issues described in more detail in this report.

The Town was fortunate in mid fiscal year 2015 to appoint an individual to the Town Accountant's position who has made a dramatic difference in a positive manner. The individual has accounting experience but came with no municipal experience. However, she is learning every day and managed to reconstruct all uncompleted fiscal years; this was not a small task. Her energy, commitment, loyalty and drive have been commendable. We urge the Town to provide this individual with the means to educate herself further in municipal accounting and the financial laws of the Commonwealth. We believe that with time she can become a very successful Town Accountant.

With this starting point in place, the Town needs to evaluate the overall structure of its financial and administrative operation, which should include processes, staffing levels and personnel in other offices. Currently, it does not appear to be working within a framework of optimal goals and expectations. As you read the remainder of the report, each of the points above will be discussed in more detail.

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. Deficiency in internal control
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.

Deficiencies in internal control 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.

De Minimis Property Tax Assessments

The Town annually assesses property taxes for each tax entity for which the Town has reported taxable personal property. A large number of these personal property tax accounts have valuations less than \$10,000. At the current enacted property tax rates, these personal property tax accounts have minimal annual assessments.

In many instances, the cost to assess, collect and follow-up on these de minimis accounts can exceed the actual property tax assessment.

We recommend that the Town consider including an article at the next Town Meeting asking voters to exempt property up to \$10,000 from being taxed. There are over 100 communities currently employing this practice. It is important to note that the elimination of these assessments would not reduce the amount of total property tax assessments in any given tax year; the remaining property tax accounts would absorb these de minimis accounts, which will likely amount to an insignificant additional amount (pennies) to these tax payers, but will greatly increase efficiency within the Collector’s Office.

The Town Administrator reports that the Board of Assessors has requested a warrant article for the 2017 Annual Town Meeting to exempt from taxation personal property with an assessed fair cash value of less than \$5,000. This amount was chosen by the Board as that which was

politically feasible on the Town Meeting floor given the exempted amounts are shifted to the real estate levy. This exemption, if successful would apply beginning with the FY '18 tax year.

Municipal Data Breach Protection

Within the past few years, there has been an alarming increase in the number of intrusions into municipal networks throughout the United States. These breaches, many of which targeted relatively small towns, have resulted in the unauthorized access of resident, student and employee data along with the theft of several hundred thousand dollars. Given that most cities and towns lack a structured information security program, their systems are increasingly at risk to this type of event.

Recently, a select number of highly qualified companies have emerged that conduct "Data Security Audits" for municipal entities. The audit is a comprehensive examination of the administrative, technical and physical security controls that a municipality has implemented to protect personal information. The resulting audit report identifies each condition that exposes the municipality to potential unauthorized access and offers practical recommendations to remediate these conditions.

The Town Administrator advises that the Town has recently conducted, with the assistance of a state Community Partnership grant, an assessment of its IT security by Rutter Networking Technology of Andover, MA. The recommended measures outlined in the report require an investment in the Town's basic network before it can undertake many of the recommended measures. The Town Administrator has included a funding request of \$6,000 in his recommended fiscal year 2018 budget to take that first step with subsequent measures to follow each budget year thereafter.

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 documented 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.

New Pension Accounting Standards

The Governmental Accounting Standards Board or GASB recently issued Statements No. 67, and No. 68. Both statements materially impacted the Town's reporting of pension liabilities when they were implemented in fiscal 2015. The impact to the Town's fiscal 2016 GAAP balance sheet is the recognition of a pension liability in the amount of \$9.6 million (which includes \$1.9 million for TMLD). This represents the unfunded portion of the Town's actuarially determined pension for retirees and current employees expected to retire and collect a pension.

Currently, the pension liability is only 44.5% funded which places it in the lower end of the funding ratios for all systems in Massachusetts. However, because the Town belongs to a County system, the Town does not have much control over the funding of this liability; thus, it does not have the ability to accelerate its annual payments. The liability is currently set to be fully funded by 2036.

Municipal Modernization Act

In August 2016, the Municipal Modernization Act was signed into law in Massachusetts. This law streamlined many of the financial legislations used throughout the cities and towns in the Commonwealth. The three portions of this Act that will likely affect the Town include:

- 1) Creating a single overlay reserve to cover the costs of potential abatements or exemptions granted by assessors or ordered by the Appellate Tax Board versus having to maintain individual overlay reserves by fiscal year. This portion of the Act became effective on November 7, 2016.
- 2) Changing the statutory treatment of premiums received when issuing debt. Prior to the Act, premiums (net of issuance costs) were General Fund revenue. Effective November 7, 2016, premiums (net of issuance costs) are: (a) used to pay project costs and to reduce the amount of borrowings authorization by the same amount when the borrowing vote so authorizes; or (b) reserved for appropriation for capital projects for which a loan has been, or may be, authorized for an equal or longer period of time than the loan for this the premiums were received.

- 3) Creating a betterment reserve account; the Act now requires communities to establish an account to which betterment and special assessment receipts are reserved for debt service for projects in which the betterments were assessed.

There are many other sections that will impact the Town, and we suggest the Town review the Act in its entirety to determine which sections apply.

MATERIAL WEAKNESSES AND INSTANCES OF NONCOMPLIANCE

Budget Management

** Material Internal Control Weakness (fiscal year 2013 – 2015)*

** Material Instance of Noncompliance with Laws and Regulations (fiscal year 2013 – 2015)*

A Town's budgeting process is one of the most significant functions of internal control. Not only does it provide the cornerstone for the Town's strategic direction, but it is the guideline for departments and their managers to maintain their cost of operations within. These budgets are legally adopted, and subject to Massachusetts General Laws (MGL). Any violation of these mandates could lead to severe consequences, the minimum of which is the requirement to raise any deficits within the subsequent year tax rate. This could have a serious impact on the subsequent year budget.

Deficits in the Town's annual budget were common place throughout the four-year period under question but of particular significance in fiscal years 2013 through 2015. Prior to 2013, these deficits were not significant and consisted mainly of snow and ice which is a legal deficit and other unpredictable items that are commonly difficult to target.

Beginning in 2013 and continuing through fiscal year 2015, the process of budget monitoring was reckless and essentially nonexistent. In fact, the Town was unaware of these deficits until years later, especially for fiscal year 2013 and 2014 when the entire years' records were reconstructed.

This resulted in tax recaps being prepared improperly and subsequent year budgets being inaccurate.

This was about the time the Town began experiencing rapid turnover in its key financial and leadership positions, and also about the time it was in the process of converting financial accounting systems. These factors contributed heavily to this dysfunctional process.

While it is expected that deficits in the snow and ice account are unavoidable due to unpredictable seasonal weather conditions, it is unacceptable and contrary to MGL to incur deficits in other appropriation items.

One of the biggest issues we observed was the lack of a streamlined process able to produce accurate data to monitor departmental budgets on a monthly basis. This was evident through the observation of a substantial number of manual adjusting journal entries throughout the general ledger, many of which were made many months/years after year-end.

In addition, we determined that the budgets as recorded in the general ledger do not at all times match the Town Meeting votes, which served to only compound the challenges with monitoring the budget.

The following summarizes the appropriation deficits:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Cumulative Total</u>
Town Coordinator Salary	-	2,317	-	-	2,317
Selectmen Office Salaries	-	134	-	-	134
Selectmen Expense	1,807	-	-	-	1,807
Assistant Treasurer Salary	987	-	-	-	987
Treasurer Expense	292	502	-	-	794
Harpers Payroll	-	-	126	-	126
Asst. Collector Salary	-	130	-	-	130
Collector Expense	39	81	-	-	120
Town Counsel Expense	6,861	-	-	-	6,861
Town Technology Expense	-	2,675	-	-	2,675
Asst Town Clerk Salary	-	296	-	-	296
Conservation Commission Salary	66	112	-	-	177
Conservation Commission Expense	-	29	-	-	29
Planning Board Secretary Salary	-	671	-	-	671
Planning Board Expense	-	485	-	-	485
Town Building Expense	-	-	1,135	-	1,135
Police Department Salary	10,946	-	-	-	10,946
Police Expense	375	1,032	-	-	1,407
Fire Chief Salary	-	58	4,146	-	4,203
Fire Capt/LT Salary	-	-	1,550	-	1,550
Fire Dept Expense	-	9,457	6,315	-	15,772
EMS Salaries	-	-	33,955	-	33,955
Building Inspector Expense	-	353	-	-	353
Electrical Inspector	700	-	-	-	700
Plumbing/Gas Inspector	325	970	-	-	1,295
Animal Control Salary	8,976	-	-	-	8,976
MEMA Civil Defense Expense	-	90	-	-	90
Communications Salary	-	-	89	-	89
Communications Expense	-	377	-	-	377
Narragansett Reg School Assessment	-	0	-	-	0
Highway Dept Salaries	-	1,057	-	-	1,057
Mechanics Salary	-	840	-	-	840
Town Vehicle Maintenance	-	3,693	-	-	3,693
Cemetery Superintendent Salary	-	1,331	-	-	1,331
Cemetery/Parks Salary	-	6,110	-	-	6,110
Cemetery/Parks Dept Expense	-	829	-	-	829
Board of Health - Agent	-	2,874	-	-	2,874
Board of Health - Office Salaries	-	-	33	-	33
Board of Health Expense	-	263	-	-	263
Board of Health - Hazardous Waste Day	-	311	-	-	311
Council on Aging Expenses	250	-	-	-	250
Veterans Services District	3,645	-	-	-	3,645
Boynton Library Salaries	-	9	-	-	9
Library Expense	-	330	-	-	330
Recreation Salaries	-	150	-	-	150
Recreation Expenses	200	-	-	-	200
Memorial Day/Veterans Day Expenses	166	-	-	-	166
Issuance costs	3,717	-	-	-	3,717
Debt	197,809	95,058	157,000	87,000	536,868
Short term interest	10,268	3,178	-	-	13,446
Unemployment Compensation	-	16,921	790	-	17,711
Medicare	12,609	-	3,571	-	16,181
Group Insurance	64,186	-	-	-	64,186
General Insurance	2,675	-	-	-	2,675
3/29/14 STM vote to offset deficits	(26,899)	-	-	-	(26,899)
	<u>\$ 300,001</u>	<u>\$ 152,720</u>	<u>\$ 208,710</u>	<u>\$ 87,000</u>	<u>\$ 748,432</u>

A process needs to be developed for monthly monitoring of all departmental budgets. Ultimately, it is the Town Accountant who has the legal obligation and responsibility not to allow charges to appropriation lines that are in deficit. Involving department heads as part of a monthly reconciliation process is ideal. Results of the process should be communicated to the Town Administrator, Board of Selectmen and Advisory Committee. As department heads near their authorized budgets or exceed their monthly expectation, action plans should be put in place to avoid the department being in deficit.

The results during fiscal year 2016 were much better, and we expect similar results when fiscal year 2017 is audited. The only deficit in fiscal 2016 was due to the informality of not voting a debt charge to a restricted for debt service account; even though the intent was proper, the formal vote was never made.

The Town Administrator advises that he requires the Town Accountant to provide him with a revenue and expenditure report on or about the 10th of each month. He reviews that for areas of concern and has the Town Accountant do a follow-up with the relevant department. He also reports that he now requires the Finance Team (Town Accountant, Treasurer/Collector, and Deputy Assessor) to present to the Board of Selectmen, in open session, a quarterly report in which they speak of their activities, collection and expenditure trends and areas of concern. He acknowledges this process needs to be codified.

General Fund Overdraft

**** Material Internal Control Weakness (fiscal years 2013 & 2014)***

**** Material Instance of Noncompliance with Laws and Regulations (fiscal years 2013 & 2014)***

Massachusetts General Laws specifically prohibit the General Fund from using cash restricted for other funds to satisfy General Fund operating obligations. The only exception is the General Fund is able to borrow from the Stabilization Fund.

Historically, the Town has had low cash reserves in its General Fund; and due to the timing of tax bills being quarterly, it is difficult to match disbursements with receipts adequately. Built up reserves in other communities typically act as a buffer against this situation, but in 2013 and 2014 the Town had no reserves and was incurring deficits at a rapid pace. Therefore, at numerous times during the year, the Town was operating with negative cash balances in its General Fund. In fact, in both fiscal years 2013 and 2014, the Town ended the years with cash deficit balances.

Since the Stabilization Fund money is not significant and there was no evidence of a formal internal borrowing from stabilization, the overdraft could not have possibly been funded from the Stabilization Fund. Therefore, the overdraft by default must have been funded from other available cash in special revenue, capital projects and the sewer betterment funds.

Subsequent to year-end, it was determined that the Town Treasurer in those years had been using available cash from a BAN proceed intended to fund capital projects. Additionally, we determined that cash forecasts had never been prepared by the Treasurer's Office; therefore, it was difficult for the Town to understand its cash flow requirements.

The use of restricted cash to finance General Fund operations contradicts Massachusetts General Laws. In addition, the use of proceeds intended for capital projects to finance General Fund operations could impact the tax status of the borrowing, thus increasing the financing costs and create negative investment appeal for the Town's issued securities. In the most adverse situation, the debt could be called immediately on demand.

The Town needs to create a process that avoids such situations in the future; we suggest the following is undertaken:

- 1) All BAN and Bond proceeds, once received, should be placed in dedicated bank accounts segregated from the cash pool.
- 2) Cash forecasting should become part of the normal monthly operating duties of the Treasurer.
- 3) In the instance that it is determined that a cash infusion is necessary, the Town should issue revenue anticipation notes rather than borrow from restricted cash balances.

We determined that no material issues related to this finding occurred in fiscal 2015 or 2016 and do not expect this finding in 2017. Also the Town issued a revenue anticipation note in fiscal 2014, but this was due to the tardiness of setting the tax rate in that year.

Audit and Single Audit Filing Deadlines

** Material Instance of Noncompliance with Laws and Regulations (fiscal years 2013 – 2015)*

With respect to the annual audit, there are two deadlines that a community is required to fulfill:

- 1) For communities who expend more than \$500,000 in Federal expenditures (\$750,000 for years after 2015) a single audit is required to be filed within 9 months of the end of the fiscal year (March 31 in the Town's case).
- 2) For issuers of greater than \$10 million in debt, a community is required to file an annual audit with its official disclosure statement within 270 days of the end of the fiscal year (around March 27 in the Town's case).

Given the Town expended more than \$500,000 in Federal awards in both fiscal years 2013 and 2014, it was required to have a Single Audit in each of those years. We completed those audits as part of the current audit process; but clearly, in each of those years, the Town failed to satisfy the Single Audit deadline and is now considered a high risk auditee under Federal Audit guidelines. The Town also lost a chance to apply for CDBG funds for subsequent years due to this failure.

In addition, since the Town has not completed an audit since 2012, the official disclosure deadline was missed for fiscal years 2013, 2014 and 2015. The 2016 audit was filed timely.

In order to avoid the issues associated with late filings, it is important that the Town establish a process that guarantees it will not miss its audit submission deadline dates in the future.

Capital Project Management

* *Material Internal Control Weakness (fiscal years 2013 & 2014)*

* *Material Instance of Noncompliance with Laws and Regulations (fiscal years 2013 & 2014)*

Capital planning and budgeting is central to economic development, transportation, communication, delivery of essential services, environmental management and quality of life of a Town's citizens. Much of what is accomplished by local government depends on a sound long-term investment in infrastructure and equipment. A sound capital improvement plan is also essential to maintain property valuations and attract homebuyers to the Town's market.

The Town has failed terribly in managing its capital projects and corresponding funding:

- **252 Baldwinville Road** – In 2011, the Town incurred \$100,000 in feasibility costs and spent over \$400,000 on a building it intended to use as its Town Hall; further, the Town initially borrowed \$700,000 in State House Notes and an additional \$1,400,000 short-term to fund the renovations to the building.

It was subsequently learned that the presence of hazardous waste rendered the building unusable and the Town ultimately sold the building for under \$200,000 for over a \$300,000 loss. The excess \$200,000 in borrowings continues to remain unspent from 2012. This far exceeds the 24 month IRS arbitrage requirement to pay down proceeds; thus, the Town could have an IRS arbitrage rebate issue.

The \$1,400,000 short-term borrowing, which was rolled over was not placed into a dedicated account but instead commingled with other Town cash and inadvertently used to leverage General Fund operations. As previously discussed this is illegal.

- **Elementary School** – Several years ago Town Meeting authorized the construction of an approximate \$50 million elementary school project. This was done in partnership with the Massachusetts School Building Authority (MSBA) which will reimburse the Town for about 60% of the eligible construction costs.

The debt service vote was successful under a debt-exclusion override vote, and accordingly, annual debt service costs associated with this project are expected to be paid from taxation. The project is intended to solve crowding conditions and improvements to the substandard facility that currently houses the Town's elementary school aged students.

The Town began a feasibility study in fiscal year 2010, which the voters authorized in two separate articles; this would be subsidized from available funds or borrowings in the amount of \$1,050,000. The Town spent \$1,049,985 over a 6 year period. \$550,000 was borrowed and \$536,172 was received from the MSBA.

A separate article also related to the Elementary School authorized the remainder of the project costs around \$47 million to be subsidized from available funds or borrowings. The Town, to date has spent approximately \$2.5 million. Of this amount, nearly \$1.3 million was subsidized by the MSBA; the remainder is a deficit of over \$1.2 million.

There are several major issues associated with this project:

- 1) For the first two years of the project; in 2010 and 2011, all the activity was incorrectly recorded in the General Fund, so instead of a surplus of \$36,172 in the Capital Project, it reflects a deficit of \$119,816.

Also, MSBA reimbursement amounts in those years that should have been charged against the MSBA portion of the expenses were instead charged to the initial debt payback or Town portion in the amount of \$77,500.

The net of these items will be discussed with the Department of Revenue for proper treatment. The choices are to create a deficit in the General Fund or simply leave the deficit in the Capital Project Fund. Either way the deficit needs to be raised through a borrowing, taxation or free cash.

- 2) The remaining \$472,500 repayment of the BAN was made over the three-year period 2013 – 2015. Of this amount, \$409,563 was never voted as an appropriation by Town Meeting or included on the DE-1 tax recap; and thus resulted in a deficit in that amount. These deficits are included in the table under deficits previously discussed and should be raised on the fiscal 2018 tax recap.
- 3) Since the Town allowed 4 years to lapse between audits, it had no access to the bond market; accordingly it used available cash. Since all cash was commingled, it is not clear which bucket of cash was used to fund the expenses. This is important to understand as the only cash that can fund a capital project can be from the General Fund, Stabilization Fund or the capital project itself. This placed stress on an already precarious General Fund cash position, and if other funds such as Community Preservation or Sewer Betterments cash were used, this would be illegal.
- 4) Despite the Town incurring expenses as early as 2010, the first MSBA reimbursements were not received until 2015, thus placing further cash stress on the General Fund. In order to manage cash flow, this process needs to be changed to a monthly reimbursement process.

A project of this magnitude is very complicated to manage and continued mismanagement of this project could prove catastrophic to the Town. It involves several short-term, multi-million dollar borrowings all interlocked seamlessly and transitioning between each maturity; in addition it involves timely submission of reimbursement requests to the MSBA to assure cash flow is positive. Estimating cash needs on a monthly basis and comparing that to projected receipts is critical.

We do not believe the current Treasurer or anyone in the Treasurer's office have the skillset necessary to financially manage the largest project in the Town's history and bring it to a successful conclusion. Therefore, we strongly recommend that the Town utilize the services of a consultant familiar with school projects in Massachusetts to assist in the administration of this challenging process.

Since the Town has now completed its audits and it can access the capital markets, the first step the Town should complete is to immediately issue a bond anticipation note to cover the

remaining total deficit of almost \$1.4 million before June 30, 2017, or the Town will face a deduction to free cash in this amount.

- **Senior Center** – The Town’s Senior Center was subsidized from a combination of different sources including gifts, grants, fund raisers and taxation. It was managed by a volunteer oversight committee for planning and construction of a Senior Center. The approximate \$500,000 facility was substantially completed at the end of fiscal 2016; however, the occupancy permit is being held by the Building Inspector as the building has failed to pass code in some areas.

This is another example of poor coordination and planning between all applicable parties. Given the process was held up just before the winter, this cannot be completed until the spring/early summer for occupancy. There was also procurement issues associated with this building which are discussed under the caption labeled procurement.

Any such Building Committee should be made up of individuals who understand the intricacies of complicated municipal building regulations and related financing. Managing the Town’s capital projects moving forward is a critical aspect of the Town’s growth and preservation of property values.

In addition the Town should work with its financial advisors to determine if arbitrage issues have resulted from the mismanagement of debt.

The Town Administrator advises that the Town is preparing a bond offering to cover the school project(s) in deficit. However, due to the failure of the Town to follow its By-Laws which require that any such project(s) be presented to the Capital Improvements Committee before they go to Town Meeting for action, it has been necessary to file special legislation to validate the Town Meeting actions. The closing on any such bonds offered will, therefore, be contingent upon securing the passage of that legislation.

He further advises that he has provided for the expenditure of the funds remaining, in compliance with statute and IRS regulation, as part of the FY 2018 budget request. Also, he will submit a request to the Town’s financial advisor to review the matter of whether or not the Town is in violation of any IRS arbitrage standards.

Financial Reporting System

*** Internal Control Weakness (fiscal years 2013 – 2015)**

The Town’s financial reporting system at most times during the fiscal years ended June 30, 2013 through 2015 was inadequate to meet the Town’s financial reporting needs. The consistent turnover (as previously discussed) in the Town’s major financial positions, combined with the conversion of the accounting records from “City and Town” to VADAR created a system of records that was inaccurate, incomplete and very difficult to comprehend. This contributed to many of the issues that are outlined in this report.

In mid-2015 when the current Town Accountant was appointed, the first task was to reconstruct all records for each of those three fiscal years. This was complicated, cumbersome and very

difficult to complete, especially in light of the individual tasked with this responsibility not having any experience in municipal accounting, and only being limited to 25 hours per week.

The Town's record of its financial activity is essentially a log of all transactions that has occurred during the fiscal year. It is important that the Town implement a process that prohibits such collapses in the future.

We determined that fiscal year 2016 transactions were maintained in a much more competent manner and expect fiscal 2017 records to be closed in a timely manner.

The Town Administrator reports that the overall staffing hours currently budgeted for the Finance Team, given the activities it carries out, is – in his 35 years of experience – considered adequate to the task. However, the staffing pattern does not allow for any redundancy for the Town Accountant. Therefore, he has proposed a re-organization of the work flow and staffing pattern such that there is a 19.5 hour per week Assistant Town Accountant within a relatively constant staffing complement. However, he notes with concern suggestions that – with the audits completed – the town might be able to “dial back” its staffing of the Finance Team and questions concerning the levels of compensation which are – in his professional opinion – now just beginning to approach market equity.

Lack of Documented Policies and Procedures

*** Material Internal Control Weakness (all fiscal years)**

Presently, the Town does not formally document policies, procedures and controls for key financial transactions, including cash, tax/utility billing, departmental receipts, purchasing, vendor disbursements, employee benefits and payroll. As a result, these transactions are at risk of being performed in an inconsistent and inefficient manner by the Town's departments. Most notable areas that should be addressed while documenting this process include the following:

- 1) The documentation of a formal, Town-wide, and consistent departmental cash receipt policy. Current Town informal policies fail to address the following:
 - Who may collect cash at the departmental level?
 - How is cash controlled at the departmental level?
 - Where should cash be maintained prior to its turnover?
 - How much cash may be maintained prior to turnover?
 - How often should cash be turned over?
 - How are fees determined?
 - What bonding requirements should be in effect for individuals who handle cash at the departmental level?
 - What is the requirement to reconcile receipts periodically with the Town Treasurer?
 - What is the requirement to reconcile receipts with the Town Accountant?

- 2) The lack of a centralized human resource function has resulted in the absence of written employee related payroll and benefit policies. The following, some of which the Town does employ through collective bargaining agreements, should be considered in developing appropriate overarching policies:

- Personnel policies such as hiring and terminating employees
- Background checks including CORI checks
- Lines of responsibility and delegation and to whom each employee reports
- General harassment policies; including sexual harassment policies
- Minimal expectation levels for employees
- Vacation and sick policies
- Fringe benefit qualifications
- Authorization policies
- Truancy policies
- Timesheet policies

3. Purchasing (see detailed discussion below in Procurement Process finding)

The Massachusetts Department of Revenue (“MA DOR”) has numerous manuals dedicated to the processing of transactions by municipal departments. In addition, in 1992, the Committee of Sponsoring Organizations of the Treadway Committee (“COSO”) documented what is widely interpreted as the authoritative guidance regarding internal controls over financial reporting in the United States. We recommend that the Town review the COSO internal control framework and MA DOR manuals and develop a comprehensive set of policies and procedures to effectively safeguard the Town’s assets and better assure that the Town’s financial and operating objectives are met.

The Town Administrator advises that the Town, with the assistance of a State Community Partnership grant, has retained the Collins Center of UMass Boston to help it develop a formalized set of financial policies addressing various matters including, but not limited to, those enumerated in the Auditor’s observations. He acknowledges the comments on human resources and reports he hopes the Town can make modest process with the redesigned workflow of the Finance Team and tasks currently carried out in the Board of Selectmen’s offices.

Bank to Cashbook Reconciliation Process

**** Material Internal Control Weakness (fiscal years 2013 and 2014)***

The timely, complete, and accurate reconciliation of cash between the bank statements, Treasurer’s cashbook, and Accountant’s general ledger is the most important aspect of maintaining a reliable and valid set of financial records and is the biggest deterrent to preventing or detecting fraudulent acts relative to Town funds. The process begins with a complete bank reconciliation process in the Treasurer’s Office. We discovered that bank reconciliations for the years ended June 30, 2013 and 2014 as compared to the cashbook were not completed until fiscal year 2015. This placed the Town at tremendous risk that misappropriation of funds or material could have occurred and not been detected. It is critical that bank reconciliations are prepared every month within 30 days of the previous month end.

Beginning in fiscal year 2015 and continuing to the current year, bank reconciliations are now prepared timely in the Treasurer’s Office except for two stagnant accounts that are reconciled by the Town Accountant’s Office. We suggest the two stagnant accounts are allowed to close and all reconciling items moved to tailings.

The Town Administrator advises that the Town is currently reviewing all remaining outstanding tailings and has reduced the amount in question to roughly \$26,000. By the end of Fiscal Year 2017 he expects the Town will have reduced the two stagnant accounts to only that amount which remains in questions and begun the process of claiming the funds into the Town's Treasury as permissible under the State Abandoned Property regulations. Such a review and turnover is expected to become codified, as part of the policies being developed under a preceding management comment, to be part of the annual audit preparation. He further advises this will become part of the monthly review of revenues and expenditures by his office as noted in a preceding management comment.

Treasurer's Cashbook to General Ledger Cash Reconciliation Process

**** Material Internal Control Weakness (all fiscal years)***

The second step in the overall cash reconciliation process that was identified in the previous finding is the reconciliation of cash recorded in the Town Accountant's general ledger to cash recorded in the Treasurer's cash book. This process was not completed timely for the entire four years under audit. The 2013 – 2015 fiscal years were completed in fiscal year 2016, and the fiscal year 2016 process was not completed until fiscal year 2017 and is still not completely reconciled as a variance of approximately \$50,000 exists. The variance is positive, and we understand the Town Accountant is continuing to research this.

It is critical that a monthly cash reconciliation process becomes part of the Town's financial policies; without this the Town could run a risk of misappropriation or material error in the financial records that may not be detected in a timely manner.

Accounts Receivable Reconciliation Process

**** Material Internal Control Weakness (all fiscal years)***

During all four years under audit, there was no process in place by which the Town Accountant and the Town Collector reconciled accounts receivable to one another. As discussed under the cash reconciliation finding, reconciliations are an integral part of internal control. When done timely and accurately it helps insulate the Town from errors in the accounting records and more importantly provide for excellent protection from fraud.

In summary, a process should be established whereby the Town Accountant and the Town Collector reconcile accounts receivable between the two offices. Variances should be investigated immediately and adjustments made only after a thorough investigation has been performed.

Procurement Process

**** Material Instance of Noncompliance (all fiscal years)***

The Town's policies with respect to purchasing, need to be better defined and communicated to department heads. In addition, it is important that the Town embody a policy for procurement

that is fair to all potential vendors and not engage in processes that may be favorable to select vendors only.

We noted deficiencies in this area described as follows:

- 1) Not all contracts were signed by the Town Accountant certifying that funds were available.
- 2) The Town Accountant does not maintain all contracts as required, to be in conformity with MGL Chapter 41 Section 57.
- 3) Chapter 149 of the General Laws of Massachusetts, dictate how procurement practices regarding building construction are administered in Massachusetts. The following table summarizes the requirements under Chapter 149 as they existed at the time of the audits:

M.G.L. c. 149 – BUILDING CONSTRUCTION CONTRACTS

Estimated Contract Amount	Under \$10,000 ¹	\$10,000 to \$25,000	Over \$25,000 to \$100,000	Over \$100,000	Over \$10,000,000
Procurement Procedure	Sound business practices	Solicit written responses.	Sealed bids (using M.G.L. c. 30, § 39M procedure).	Sealed bids.	Solicit statements of qualifications prior to soliciting sealed bids.
Advertising Requirements	No.	Advertise in the <i>Central Register</i> and COMMBUYS and post a notice on your jurisdiction's website and in the office at least two weeks before responses are due. ¹	Advertise in the <i>Central Register</i> and a newspaper at least two weeks before bids are due, and post a notice in your jurisdiction's office for at least one week before bids are due. ² Posting on COMMBUYS or your website is optional.	Advertise in the <i>Central Register</i> and a newspaper at least two weeks before bids are due, and post a notice in your jurisdiction's office for at least one week before bids are due. ³ Posting on COMMBUYS or your website is optional.	Advertise the request for qualifications in the <i>Central Register</i> , a newspaper, and COMMBUYS at least two weeks before responses are due. ⁴
DCAMM Certification	No.	No.	No.	Required for general bidders and filed sub-bidders.	Required for general bidders and filed sub-bidders.
OSHA Training	No.	Yes.	Yes.	Yes.	Yes.
City/Town Prequalification	No.	No.	No.	Optional. ⁵	Yes.
Filed Sub-bids	No.	No.	No.	Yes (\$20,000 and over).	Yes (\$20,000 and over).
Bid Deposit	No.	No.	5% of the value of the total bid.	5% of the value of the total bid, or sub-bid.	5% of the value of the total bid, or sub-bid.
Payment Bond	No.	No.	50% payment bond.	100% payment bond.	100% payment bond.
Performance Bond	No.	No.	No.	100% performance bond.	100% performance bond.
Prevailing Wage	Yes.	Yes.	Yes.	Yes.	Yes.
Contractor Evaluation	No.	No.	No.	Yes.	Yes.

- 4) With respect to the Senior Center project previously described, there were 3 contracts that appeared to contradict Chapter 149 construction regulations:

- A project for blueboard work was split into a contract for hanging blueboard and plastering blueboard and awarded to the same vendor. Each contract was \$9,000 and below the \$10,000 requirement to obtain written quotes. The Inspector General, if alerted may call this a bid split, which if were the case, would be illegal as it appears that written quotes were avoided by bringing the amount into two contracts below \$10,000.
 - A project for the Senior Center floor which cost \$29,608 was split into two contracts, one below \$10,000 and one below \$25,000 and awarded to the same contractor; **written quotes were received** for this project; however, all of the requirements for projects above \$25,000 (see table) were avoided by splitting the project into two procurements. A former Town Administrator's name was whited out on the contract, and it was signed by a member of the Board of Selectmen.
 - A project for the emergency exit railing was split into 3 separate contracts; the total of the project, all awarded to the same contractor was \$36,700. Two of the contracts were below \$10,000 and the third contract was below \$25,000. **Written quotes were received** for this project; however, the requirements for contracts above \$25,000 (see table) were avoided. A former Town Administrator's name was whited out on the contract, and it was signed by a member of the Board of Selectmen.
- 5) With respect to the **Town Hall** renovation project, we reviewed about \$107,000 in project costs. All contracts were awarded to a single contractor. No written quotes were received for any of the work performed. Seven separate contracts were written; four of these were for \$9,850 and two were for \$9,250. The final contract was for \$24,900.
- The contract for \$24,900 was for bathroom renovations which ended up costing \$28,250. Many Chapter 149 violations were associated with this contract, including no written quotes as previously discussed and all requirements of Chapter 149 for contracts above \$25,000.
 - The six contracts for just under \$10,000 were for two separate window projects each over \$25,000. One of the projects initially had an executed contract for over \$25,000, but it was void and split into three contracts under \$10,000.

The Inspector General, if alerted may determine this as a bid split, which if were the case would be illegal.

- The contractor in this situation was also a Town official.
- The current Town Administrator has certified to our firm that he communicated all details of the Town Hall renovation project to the Inspector General and has spoken to the individual in Town Hall who administered the procurement. We also understand the Town Accountant has communicated the details of this procurement to the Department of Revenue. The Town Administrator also communicated to our office that the Inspector General would consider this matter resolved upon the completion of a training costing \$500 to be administered at the Town Offices by the Inspector General.

The Town should consider numerous revisions to its procurement process as described above and should also consider the potential of implementing a purchase order system to better control expenditures at their earliest point.

The Town Administrator confirms his communications with the Department of Revenue and Office of the Inspector General (IG). He further advises that the IG's Office completed a four-hour overview of Chapter 30B and that they spoke to the matter of several inter-related statutes including, but not limited to, the states prevailing wage and construction bid laws.

Approximately 25 Town staff and committee members attended the session. As a follow-up, the Town is developing a localized guidebook, including the development of requiring of purchase orders for expenditures above a certain order in order to obtain control over and compliance with the process.

Timeliness of Submission of Reports to the Department of Revenue
*** Material Instance of Noncompliance (all fiscal years)**

For each of the years under audit, the Town failed to submit any balance sheets to the Department of Revenue; and the Schedule A in all years was submitted many months late. In fact, the 2012 Schedule A was submitted so late the State was required to hold up the Town's final quarter local aid of \$281,000 until well after the subsequent year had concluded in September. Given the financial stress the Town was experiencing, this was not an ideal situation. The tardiness of financial reporting could cause a number of issues from both compliance and financial stand-points.

Consider the following:

- The Department of Revenue has the ability to hold up the tax certification if the balance sheet is not submitted. In those situations they require an "in lieu of letter" to be submitted.
- Free cash, if any, is not available to the Town as a funding source until the balance sheet has been submitted and certified; this could impact services or a capital funding in the fall.
- The Department of Revenue has the ability to hold back local aid if the Schedule A is not submitted (which it did in 2014 as discussed). This could cause the Town to have cash flow issues.
- In the event of a borrowing in the fall or winter, internally generated reports may not be available for the borrower or investor, and could threaten the borrowing ability of the Town.

Given the Town may be undergoing a significant borrowing in the near future, we urge the Town to establish a process that assures that the balance sheet is submitted to the State no later than September 30, and the Schedule A is submitted no later than October 31.

Other Postemployment Benefit Obligation "OPEB"
*** Material Internal Control Weakness (all fiscal years)**

Governmental Accounting Standards Board ("GASB") No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 45") requires communities to recognize in their financial statements a liability that recognizes postemployment benefits as this benefit is earned by employees.

The Town has not implemented a process by which this material liability can be calculated; as a result it has not been reported in any of the fiscal years under audit and caused the financial statement opinion to be qualified.

The Town made an attempt to calculate and record the liability for the 2016 audit; however, the results did not appear accurate, so it was determined not to use an incorrect amount in the financial statements.

Since the GASB is converting its method of calculating the OPEB liability effective with fiscal years ending June 30, 2018, we suggest the Town conserve its resources and wait until fiscal 2018 to implement OPEB accounting; exerting the efforts to report the liability under GASB 45 after having missed it for 9 years does not make sense at this point.

The Town should also take some strategic steps to understand how to fund this liability. Establishing an OPEB Trust Fund at Town Meeting under 32B section 20 would be a great start.

While funding OPEB can be a daunting endeavor for a town like Templeton that finds itself with significant economic impasses, we would highly encourage the Town, to establish some level of consistent funding into the proposed Trust as part of that process, so that a new budget model will acknowledge the importance of establishing a mechanism for funding these very real employee benefit costs. The Town does not have to look to meet 100% of the actuarial suggested annual funding, but more importantly to demonstrate to impacted parties and other interested outside parties that the Town has a responsible plan in place that is followed through on. *We understand that with the many financial challenges the Town is currently facing, that this would not be a priority item until the financial situation begins to improve.*

GENERAL FINDINGS AND RECOMMENDATIONS

Betterments

The Town reports almost \$19 million in gross infrastructure related capital assets in the Sewer Enterprise Funds. The majority of this was placed in service over the 10 year period between 1997 and 2007. Funding from these projects was from State loan subsidy programs, State grants, debt intended to be serviced from betterments charged to the users, and the tax levy.

The following are some of the issues associated with the current process that we observed:

- 1) The debt portion was issued at approximately \$9 million and expected to be serviced by betterment charges, and the tax levy was serviced at a rate of 75% tax levy and 25% betterments through about 2012. A prior consultant was engaged to conduct a study to determine whether this split was lawful. This study was conducted in 2012, and a letter was issued in fiscal year 2013. The consultant concluded that while the Town Meeting authorization was silent with regard to the allocation of the annual debt service, there was still sufficient evidence in notes, meetings and records to establish a clear indication that the allocation of the debt service burden had been discussed and decided upon.

We have not reviewed the documentation from any of these prior years dating back to 1997 as it was beyond the scope of these audits; however, this allocation was not used for fiscal years 2013 through 2016. In fact, the amounts allocated were inconsistent. At times not enough was raised (2013 was \$91,697 short in total) and at other times too much was raised (2015 was \$4,738 over the amount needed).

This assertion can be reviewed in the following table:

	Debt service			Budget based on 75%/25%		Actual	DE-1
	Principal	Interest	Total	Tax Levy	Betterments	Betterments	
2013	402,130	146,950	549,080	411,810	137,270	86,645	370,738
2014	411,453	133,172	544,625	408,469	136,156	86,649	442,031
2015	425,682	115,206	540,888	405,666	135,222	106,654	438,972
2016	441,378	99,287	540,665	405,499	135,166	87,189	438,797

- 2) If we used the consultant's opinion to evaluate the balance of the betterment resources currently available, we have concluded that the amounts in the current betterment accounts do not appear proper based on a 75/25 split.

The following analysis (estimates) supports our conclusion:

As of June 30, 2016	
Betterment receivables	\$ 161,505
Betterment cash	1,346,270
Betterment sources	<u>\$ 1,507,775</u>
Outstanding sewer debt	\$ 3,651,750
Future interest payments	<u>266,892</u>
Future debt obligations	<u>\$ 3,918,642</u>
General portion (75%)	\$ 2,938,982
Betterment portion (25%)	<u>979,661</u>
Excess Betterment Sources	<u>\$ 528,115</u>

The Town needs to resolve this issue. Using the current balances, there will be over \$500,000 remaining in the betterment accounts after all the debt has been paid off, or maybe more if the lower allocation rate utilized in 2013 – 2016 is continued with.

It appears one of the following has occurred:

- The tax levy has over paid the tax burden portion and this should be credited back to the General Fund with the overage and possibly a negative DE-1 on the 2018 tax recap.
- The Betterment users may have been overcharged and are due a refund.
- There were accounting errors in the process that need to be corrected.

From the information we have available, it is not possible to resolve this without an analysis dating back a number of years. We suggest the Town begin the process of reviewing this and make the corrections to its fiscal year 2017 records. *We understand the Town Accountant is aggressively researching this.*

Ambulance Write-Off Policy

In connection with our auditing procedures, we observed that the Town's former fire chief in fiscal year 2013 approved the write-off of over \$102,000 in ambulance receivables with the Town's third-party ambulance billing/collection service provider. Upon further inquiry, we determined that the Town does not have a formal procedure to review its ambulance receivables with this third party service provider.

Furthermore, the Town does not have a formal policy covering ambulance receivable write-offs.

Ambulance operations are material to the Town's financial operations. Its solvency is also essential to the Town's ability to provide these valuable and life-saving public safety services to its residents.

We recommend that the Town implement a formal schedule with its third party service provider in which the Town's fire chief and key finance and administrative personnel review outstanding balances and approve write-offs, if needed. This process should be undertaken annually, at a minimum.

Sewer Commitments

The Sewer Department operates as an enterprise of the Town. The Sewer Department is responsible for the billing and collection of its quarterly sewer usage fees. Cash receipts are timely deposited into the Sewer Department's bank account, and a turnover report is provided to the Town Treasurer and Accountant. However, the financial details of the quarterly billing (i.e., the commitment amount) is not provided to the Town Accountant. As a result, the Town cannot properly track accounts receivable of the Sewer Department.

The Town relies on the receivable reporting from the Sewer Department and performs periodic true-ups of the accounts receivable balance in the Town's accounting records. However, this does not permit the Town to fully perform its fiduciary responsibility to oversee the financial operations of the Sewer Department.

A more appropriate system would be for the Town to receive commitments from the Sewer Department each quarter and record the commitment as a receivable with a corresponding deferred revenue offset. As collections are turned over to the Town, the Town would relieve the receivables and deferred revenue offset and record additions to cash and revenues. Additionally, the Sewer Department would need to provide details of abatements to the Town. This would permit the Town to reconcile its recorded receivable balances for sewer usage fees with those maintained by the Sewer Department and thereby enhance the current system of internal controls surrounding this important business cycle.

The Town Administrator advises that he has had several conversations with the Sewer Superintendent and some of the Commissioners relative to the implementation of best practice with respect to the accounting and workflow of the Department and observations from the previous 2009 DOR report. Understandably the Commissioners are somewhat hesitant to implement changes given the turmoil and lack of sound financial data that has existed regarding the Town's Finance Team. The Town Administrator is hopeful that the completion of these audits, the timely completion of the fiscal year 2017 audit, and the reorganization of the Finance Team can lend credibility to future conversations to be had between the Board of Selectmen and the Board of Sewer Commissioners.

Sewer Backup and Recovery

Due to the nature of the Sewer Department's operations, there exists a greater likelihood that the Sewer Department may suffer an environmental loss. The Sewer Department has had two

instances over the past decade in which it incurred physical damage that caused it to lose computer systems, accounting files and other documentation.

The Sewer Department has over 1,400 end customers. A disruption in service or a loss of data would result in a material and adverse result to the Sewer Department's financial position.

The Sewer Department utilizes an accounting application that is backed up weekly to a tape system. The backup tapes are stored in the same office that the accounting application resides. In the event of a disaster, it is possible that the computer terminal, as well as the backup server and tapes, would be irreparably damaged, which would prevent the recovery of billing and collections data.

We recommend that the Sewer Department, together with its outside technology partner, evaluate all mission critical computer systems, including its accounting application. Where possible, the Sewer Department should consider cloud-based applications from reputable software companies who utilize nightly backups and have redundancy capabilities to facilitate disaster recovery.

Indirect Cost Accounting

Water, sewer, and light indirect costs are approved at Town Meeting, and transfers are made annually into the General Fund. However, they are not reflected as transfers on the tax recap, but instead as miscellaneous revenues and expenses. Furthermore, the transfers are not made if sufficient resources do not exist in the enterprise funds, and there is no formal process to the calculation of indirect costs from year to year.

The more proper accounting methodology is to show these as transfers between funds and not as revenues and expenses. Also, it is important that the transfer is made regardless if funds are available. In the instance the funds are not available a deficit should be created in the enterprise fund and raised on the following year tax recap from retained earnings or user charges.

Finally, a more comprehensive calculation of indirect costs should be undertaken, documented, and signed off by the Town and enterprise funds with updates performed every few years.

Payroll Withholding Accounts

In connection with our audit procedures, we analyzed the recorded payroll withholding accounts. In the aggregate, the total payroll withholding payables appear to be materially accurate. However, the internal classifications between the various withholding accounts require significant reconciliation and adjustment.

We recommend that the Town Accountant and Treasurer determine the correct balances for each withholding account at an appropriate cutoff date (i.e., a quarter -end) and evaluate subsequent payments made from the date. By performing this cutoff analysis, the Town can determine the correct balances and adjust the withholding balances accordingly. In addition, once these balances have been corrected, the Town will need to analyze the manner in which payroll

deductions and payments to outside vendors are applied to these withholdings accounts to ensure that the accounts are functioning properly.

Capital Asset Tracking and Reporting

The Town does not have a capital asset tracking and reporting system, nor does it have a process in place to identify capital asset additions or disposals. Rather, it relies on its external accounting firm to track its capital assets.

Capital asset accounting systems have become increasingly affordable and it is likely that the Town could deploy a robust capital asset accounting system for a relatively minimum cost, which includes customization. The adoption of such a system would likely facilitate insurance reporting and provide a mechanism to safeguard the Town's capital assets.

We recommend that the Town investigate these solutions and include such a system in its fiscal year 2018 budget.

Tax Rate Recapitulation

The Tax Rate Recapitulation Sheet is the document certified by the Department of Revenue that allows a community to set its annual tax rate and mail its tax bills. It represents a recap of the year in process and must be in balance to be certified. As we have discussed in several areas of this report, the preparation of this document has been an enormous challenge for the Town, and we have discovered several errors in the process.

The following summarize those errors, some of which were discussed in other sections of this report:

- 1) The DE-1 is not accurate in any of the years presented. Debt service for the school feasibility study was not raised on the DE-1, and sewer debt to be paid from taxation appears to have been calculated incorrectly in each of the years.
- 2) The Town incurred deficits in aggregate of approximately \$800,000 over the 4 years under audit; only the snow and ice deficits were raised. These amounts will need to be raised on the fiscal year 2018 tax recap.
- 3) The 2013 tax recap reflected \$245,000 from ambulance receipts as a local receipt despite this revenue being collected in the receipts reserved fund. This caused a revenue deficit in the final results. The Town should discuss this with the DOR to determine if this needs to be raised on the fiscal year 2018 recap.
- 4) In the 2014 tax recap, the Town raised approximately \$26,000 and labeled it as a raise for a deficit, but it did not identify what deficit it was for.
- 5) Indirect costs from the enterprise funds are presented as miscellaneous revenues under local receipts instead of other financing sources.

- 6) The fiscal year 2014 tax recap was not filed until May 19, 2014, about 5 months late. This caused the tax bills to be mailed late and instigated the Town to borrow in anticipation of revenue.
- 7) The Collector's Office does not reconcile the final commitment to the tax recap prior to mailing the tax bills to make sure no errors exist.

It is critical that the Town understand how to timely prepare the annual Tax Rate Recapitulation Form. Errors cause delays and delays will have an adverse impact on the Town's cash flow.

Compensated Absences Calculation Procedures

The Town did not have a well-documented procedure or any calculation schedules readily in place with which to efficiently determine and calculate the dollar value of the compensated absence accounting liability for unused employee sick and vacation time for any of the years under audit. Previous documents and institutional knowledge of the processes were lost with the significant turnover in the past 5 years.

Not only is this important from a GAAP reporting standpoint but even more important from an operating standpoint as the Town is never sure exactly how much time is owed to its employees, which could become a budget issue. We suggest that the Town work towards administering and monitoring this area more efficiently.

Community Development Block Grant – Water Fund Impact

In 2013 and 2014, the Town was the recipient of over \$1 million in Federal awards through a Community Development Block Grant CDBG program. The Town allocated the funds to some much needed infrastructure additions and these were recorded as capital additions in the Town's financial statements. In addition, there was \$396,970 in 2013 and \$60,730 in 2014 for water capital assets that were paid from CDBG funds but never reported to the Water Department. Therefore, capital assets were understated in the Water Department's financial statements as those audits had been completed years ago, and the auditors of those financial statements were unaware of these additions.

Treasurer/Collector

Since the Treasurer/Collector's Office handles more cash than any other Town department and is one of the more critical departments in Town Hall, we conducted a risk assessment of the office as part of our audit procedures. A number of our observations have already been discussed in other areas of this report and are repeated here in summary only for ease of placing under one caption.

The Treasurer and Collector were combined into one appointed Treasurer/Collector position in fiscal year 2014 after the recent Treasurer retired. The position is currently occupied by an

individual who prior to this worked in the Selectmen's Office conducting a number of tasks but had no prior experience as a Treasurer or a Collector. The individual is currently taking courses and working towards becoming certified by the State but as of now is not certified.

The Assistant Treasurer/Collector has 30 years of experience in collection and is currently certified by the State. This individual handles all duties related to collection activity.

The following summarizes our observations (those related to 2013 and 2014 are prior to the current Treasurer taking office):

- 1) Bank reconciliations for the entire period of 2013 and 2014 were not completed until late into fiscal 2015.
- 2) The bank reconciliations were finally prepared by the Town Accountant which is not a proper segregation of duties. We understand this was necessary to get the Town caught up on its recordkeeping but this process should be conducted solely by the Treasurer's Office.
- 3) Cash reconciliations between the Treasurer and the Town Accountant were not completed timely for any of the fiscal years under audit, and there currently exists a variance in the fiscal year 2016 reconciliation of about \$50,000.
- 4) Receivable reconciliations were not completed timely with the Town Accountant for any of the years under audit. There exists a small variance in the tax title receivable account that should be adjusted as part of the 2017 records.
- 5) DE-1's for all of the last four years' Tax Rate Recapitulation Sheets have been prepared incorrectly. This document is the responsibility of the Treasurer.
- 6) While efforts are made to collect cash from department heads weekly, there is no formal policy regarding cash held by departments outside the Treasurer's Office. The Treasurer was unaware that all Town cash is under the Treasurer's control, and the Treasurer has the duty to force effective internal control policies on all departments who handle cash.
- 7) Payroll deduction accounts were never reconciled to the general ledger for any of the fiscal years.
- 8) The department maintains a Collector's account which is used to receive deposits from the Town's Deputy Collector. This bank account balance was not maintained in the Treasurer's cashbook, was allowed to build up large balances, was never reconciled during the entire four years under audit, and none of the activity was reported to the Town Accountant's Office. It has finally been brought under control in fiscal year 2017.
- 9) A number of different funds are required to earn their own investment income; therefore cash amounts should be kept in their own bank accounts rather in the Town's pooled cash accounts. These include the Community Preservation Fund, Sewer Betterment Fund, Sewer Enterprise Fund, Water Fund, Capital Projects and others. We reviewed the bank balances in these accounts against the general ledger cash balances for these activities and none of these agree. While there is no cash missing, transfers should be made between the Town's bank

accounts so they equal the General Fund amounts every month as part of the bank reconciliation process.

- 10) With respect to these accounts, in low cash periods, the General Fund has become the beneficiary of the cash through indirect and inappropriate internal borrowings to fund operations.
- 11) Presently, the Collector does not use a lock box to collect taxes. A lock box is essentially a third-party collector of taxes. Taxpayers mail their payments to a Post Office box, and the third-party collector deposits the funds for the Town and posts activity for all those who have paid. Daily, an electronic file is then sent to the Town where payments are uploaded automatically to the Town's system.

The benefits of this process are as follows:

- Cash is in the bank sooner than through the traditional collection means at the window or mail.
- Less handling of mail, cash and checks.
- Less foot traffic at the Town Hall.
- Less manual entry of payments to each taxpayer's account since they are automatically uploaded from the lock box administrator.

Many banks offer this service at a low fee in return for a compensating balance arrangement. We suggest that this is evaluated to determine the cost/benefit of converting to such a process.

The Town Administrator advises that he had already asked the Treasurer/Collector to investigate the use of a lock box service as a means to improve cash flow and investment yield as well as free up staff time for the many other tasks of financial management currently not done or not done well.

- 12) Cash forecasts are currently not prepared as part of a monthly routine. This is a critical process for Towns that are cash stressed; we suggest such a process is implemented immediately.
- 13) A number of security issues exist which we have discussed with the Treasurer; for safety reasons, these are better discussed in executive session and not in detail in this public report.
- 14) Tax title processing is way behind. The Town just recently completed levy years 2012, 2013 and 2014 at the end of fiscal 2016. Levy years 2015 and 2016 have not been processed yet. Delinquent taxes now exceed \$1.2 million. In fiscal year 2014/2015, the Town completed an assignment of its taxes to a third party and was able to collect over \$500,000 in taxes and penalties immediately. Given the cash flow issues the Town is confronted with, we suggest the Town consider another assignment of its taxes.
- 15) The office does not include a reconciliation of its total commitment to the tax recap prior to mailing the tax bills. This is a simple reconciliation to perform that verifies the accuracy of the total commitment prior to mailing.

16) The office does not have a policy to protect its deposits from custodial credit risk; or the risk that in the event of a bank failure the government's deposits may not be returned to it. At each of the prior fiscal year-ends, the Town had deposits that were exposed to this risk.

The Town Administrator reports that he has directed the Treasurer/Collector to require any financial institutions which may not fully insure the deposits of the Town to collateralize the uninsured deposits through the pledging of securities, an Irrevocable Letter of Credit, or the like, in accord with the more restrictive of best practice and statute. It is anticipated this process will be completed by the close of fiscal year 2017.

17) The office does not have any individuals who are familiar with school municipal bond offerings and the MSBA reimbursement process. Given the size and girth of the offering needed to construct the new elementary school, this could prove challenging for the office.

One of the most critical departments in Town government is the office of the Treasurer/Collector. The office is responsible for handling the majority of the Town's cash transactions as well as all the Town's borrowing needs. Therefore it is important that the office is operated by an individual with significant experience in such matters. Any inefficiencies or errors in the administration of the daily activities could prove adverse to the Town.

We feel the Town could benefit greatly by engaging a consultant familiar with Treasurer/Collector activities in Massachusetts; especially one who has a great deal of familiarity with school construction activities and the Massachusetts School Building Authority. Such a consultant could help educate the current Treasurer with the issues associated with school construction and assist with the set-up of proper controls and procedures to address the issues listed above.

