

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF TEMPLETON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2021



TOWN OF TEMPLETON, MASSACHUSETTS

MANAGEMENT LETTER

**FOR THE YEAR ENDED
JUNE 30, 2021**

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ROSELLI, CLARK & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park
Suite 4900
Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

Board of Selectmen
Town of Templeton
Templeton, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, 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, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

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

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
March 3, 2022

OVERVIEW

The Town continued to respond well to the financial challenges presented by the COVID-19 pandemic that began during fiscal year 2020. Despite lockdowns, social distancing measures, mask mandates and the State not passing its budget until well into fiscal 2021, the Town was able to complete a positive year of operations and increase or maintain reserves at all levels.

The following are some key financial highlights:

1. Unassigned fund balance maintained a healthy \$2.8 million balance.
2. OPEB investments returned 26.9%
3. Pension funded ratio increased from 47.3% to 50.3%.
4. General stabilization funds increased to almost \$1.1 million.
5. ARPA grant – over \$2.4 million award – must be obligated by 2024 and spent by 2026.

This along with continued strong financial management has enabled the Town to maintain a high bond rating of Aa3. This enables the Town to reduce its financing costs on any of its future borrowings.

The remainder of this letter addresses items of interest that we are communicating to the Town in the form of “Informational Items”; (these are not considered findings) and a section labeled “Findings and Recommendations”, which are our observations in areas that the Town is encouraged to devote attention to. Improvements in these areas are recommended in an effort to improve internal control and efficiency.

INFORMATIONAL ITEMS

American Rescue Plan Act

Recently, the Town was awarded a significant grant under the American Rescue Plan Act, (ARPA). Because the Town's award is well under the \$10 million annual exemption limit for flexible spending the guidelines supporting this grant allow the Town to spend the funds on essentially any government service.

We are observing few communities using a portion of these funds to balance their budgets as opposed to one-time items such as emergency snow overruns and capital expenditures. Very similar to prudent uses of free cash, we are suggesting that communities use caution when evaluating the use of these funds. Avoiding structural budget deficits by not using non-recurring revenue in its budget process should be strongly considered.

Investment Income

Although interest rates on bank balances are near all-time lows, recent action and near-term future intentions by the Federal Monetary Oversight Committee to raise the rate on borrowing significantly over the next several months also signals that a similar impact on interest income yields is coming. It is important that the Town begin to aggressively monitor market activity relative to investment income and begin to manage yields efficiently once any positive trends are observed.

New GASB pronouncements

The GASB has approved a new pronouncement that will go into effect in fiscal year 2022.

GASB 87 which requires the Town to revise the manner in which it accounts for its operating leases goes into effect in fiscal year 2022. Previously, governmental entities reported their leases similarly to how private entities reported leases under ASC 840.

While finance leases would be capitalized on the balance sheet, operating leases would be reported in the footnotes. However, GASB 87 requires that all operating leases now be accounted for as finance leases.

As a result, leases previously classified as operating leases will not only be capitalized on the statement of net position but also be reported differently in the statement of activities.

Long-term obligations

Recent accounting standards have brought to light more than ever those hidden liabilities that are true long-term obligations of the Town.

More specifically, OPEB and Pension liabilities are now required under GASBs 67, 68, 74 and 75 to be recorded in the Town's financial statements.

With respect to OPEB, the Town has created a Trust and has been contributing \$32,500 annually towards the unfunded liability. Despite this, the unfunded liability sits at \$5.1 million (about 95% unfunded and an additional \$2.3 million in the Enterprise Funds). This is not unusual as multiple communities across the Commonwealth continue to trail in this area and will ultimately need to adopt more aggressive contribution policies in future years when the pension becomes fully funded.

With respect to its pension funding, the Town is a member of the Worcester County Contributory Retirement System (WCCRS) along with numerous other towns and districts. With a 50% funding ratio, it is near the lowest funded pension system in the State and well below the State average of 65.6% funding ratio.

In light of Massachusetts General Laws to fully fund this liability no later than 2040 and with a current funding schedule of 2035 the Town can expect to see its pension assessment rise rapidly at a rate of at least 10% annually.

The Town should begin to factor increases as discussed above into its long-term financial plans.

Network Security

We continue to remind our clients to remain vigilant in the fight against cybercrime. Municipal entities have and continue to be targets for cyber fraud, phishing schemes, ransomware, etc.

This has become very important as the recent pandemic has opened up opportunities to work remotely, and while this is efficient, the equipment used to facilitate these processes could also become targets if not protected adequately.

While the Town has a very strong and robust security system in place, we recommend that the Town continue to monitor the changing cybersecurity landscape and maintain its security systems and employee training accordingly.

Fraud Prevention

Fraud prevention is an area that should be under ongoing evaluation. Evaluating cash processes of cash handling areas annually through effective risk assessment and proper safeguards is an effective control to protect the Town from threats associated with fraud. We discuss this with management annually and in prior audits have included the evaluation of various cash handling areas as part of our procedures.

Management conducts many of its own internal processes to prevent and detect fraud. Periodically reevaluating departmental cash handling procedures to make sure they are adequate and effective is an ongoing recommendation.

GENERAL FINDINGS AND RECOMMENDATIONS

1. Special Road Details

The Special Road Detail agency account had a \$13,118 deficit at year end. The outstanding detail report run on 10/29/21 showed \$5,469 in outstanding amounts owed. This number however is not accurate as the report would include activity subsequent to year-end. The Town should run this detail report at month-end and reconcile this to the fund deficit to determine if a permanent deficit exists that requires funding.

2. Payroll and Other Liabilities

- The Town incurred a deficit in its spending plan in the prior year. After further investigation by the Town during fiscal 2021, it was determined that an employee who had left the Town was never taken off the plan and the Town continued to be charged for his portion, but there were no withholdings to offset these charges.
- The Town maintains an account called Other Liabilities. It currently has a deficit balance of almost \$10,000. The Town should determine if this is a permanent deficit and if it should be raised.
- The Town currently maintains two escrow accounts that have had deficit balances for a few years. These deficits should be eliminated by raising them on the tax recap.

3. Indirect Costs (update from prior year – not resolved)

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.

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.

4. Capital Assets (updated from prior year – partially resolved)

The Town has made significant progress in its capital asset reporting system. In the prior year we recommended that the Town Accountant review the current inventory listings that were created over 15 years ago and determine if they need to be updated for capital assets that are no longer in service.

Because there have been multiple distractions related to Covid and the related administration of stimulus that followed, this was as expected not given a high priority. As such, we continue to recommend that this is completed as soon as the Town is able to regain some normalcy in these operations.

5. *Ambulance Write-off Policy (update from prior year – partial resolved)*

Recently, following one of our recommendations from prior management letters, the Town created a formal policy covering ambulance receivable write-offs. However, we do not believe the policy is being enforced.

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 in accordance with the write-off policy. This process should be undertaken annually, at a minimum.

There were no write-offs during fiscal year 2021 and the outstanding balance increased by 32.5%.

6. *Treasurer/Collector Office (update from prior year - partially resolved)*

In our letter to management dated March 23, 2017, we identified 17 critical areas in the Treasurer/Collectors Office that needed to be addressed. Many of those have been addressed through fiscal year 2021, however some remain and should be addressed in the current fiscal year.

Those are highlighted as follows:

- 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.
- Cash forecasts are currently not prepared as part of a monthly routine. This is a critical process for Towns; we suggest such a process is implemented immediately.

7. *Payroll for inspectors (update from prior year – partially resolved)*

In the prior year, we discovered that an inspector, who is paid a flat rate per inspection completed, is paid through payroll. The inspector was only submitting this payroll once or twice a year. We determined the inspector submitted payroll for 65 inspections all at once in January 2020. This could place the Town in violation of fair labor standards.

This process has gotten better in fiscal 2021 but it is still inconsistent.