

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF TEMPLETON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2020



TOWN OF TEMPLETON, MASSACHUSETTS

MANAGEMENT LETTER

**FOR THE YEAR ENDED
JUNE 30, 2020**

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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, 2020, 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
January 28, 2021

OVERVIEW

Fiscal 2020 will always be remembered for what is arguably, one of, if not, the beginning of one of the Nation's most daunting historical challenges. In January 2020, a virus known as Covid-19, made its appearance in the United States. Within two months, its devastating effects were being experienced on a large-scale basis and became a pandemic. In order to mitigate the wide-spread impacts, the entire Nation came to a virtual stand-still as schools, colleges, and non-essential businesses and activities were all shut down and citizens were encouraged to stay in their homes.

Because the resultant unemployment skyrocketed to levels never seen before, it had, and continues to have a dramatic impact on the world economy; This impact has been felt at the Global, National and Local level.

While the Town could never prepare itself to face such an unprecedented challenge, recent years of strong fiscal management set up the Town to withstand this challenge better than many. Despite the economy being locked down for basically the entire fourth quarter, the Town was still able to ride the back of a strong first half of the year and end the year with positive operations an unassigned fund balance of about \$2.6 million and balance a budget for fiscal 2021.

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

Long-term obligations

An important area that the Town needs to address is its management of long-term liabilities. These are real liabilities and addressing these should be part of the Town's long-term strategic plan. Given the Town has been dealing with other much more pressing challenges over the last few years, it is understandable that these financially important areas have not been addressed; but now is a very good time to begin the thought process.

The most recent actuarial valuations place the Town pension liability at about \$11.7 million and the OPEB liability at about \$6.6 million in aggregate. Recent GASB pronouncements have forced municipal entities to recognize these liabilities in their financial statements and thus have brought to light these significant amounts more readily than in the past.

The Town is a member community of the Worcester County Regional Pension system and the System has a funding schedule in place to address this liability over the next 15 years or so. However, the current funding ratio is low, at about 47%. This means the Town can expect accelerated pension assessments within the next five to seven years.

In addition, the current funding process in place for the OPEB liability is minor. The Town has accumulated about \$0.7 million in OPEB assets in aggregate however this is still well below and acceptable funding ratio.

We suggest the Town begin to think about the following strategic positions in addressing this issue:

- Create a committee specifically designed to make decisions relative to its long-term liabilities.
- Create a pension stabilization fund. Accumulating amounts in such a fund will allow the Town to draw down on this fund in a ratable manner when its pension assessment begins to spike.
- Begin to make more aggressive annual contributions to its OPEB trust fund.

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.

Two years ago, the Town had a security assessment completed. The recommendations from this study have still yet to be completely addressed. We recommend that the Town continue to monitor the changing cybersecurity landscape and maintain its security systems and employee training accordingly as well as revisit this assessment.

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.

New GASB pronouncements

The GASB has approved two new pronouncements that will go into effect in fiscal year 2021 and 2022.

GASB 84 which requires the Town to record certain custodial fiduciary activities such as student activities as special revenue funds goes into effect during fiscal year 2021.

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.

GENERAL FINDINGS AND RECOMMENDATIONS

1. 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.

2. 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 and determine if they need to be updated for capital assets that are no longer in service.

Due to the issues associated with the pandemic, and social distancing mandates, this observation was not addressed during the fiscal year. We continue to recommend that this is completed as soon as the Town is able to regain some normalcy in these operations.

3. Ambulance Write-off Policy (update from prior year – not resolved)

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.

There were no write-offs during fiscal year 2020 and the outstanding balance increased by 10%.

4. 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 2020, 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.

5. Town Meeting Vote

The general fund Town Meeting vote for the regional school district was written such that if the assessment was higher than voted that the Selectmen could cut other budgets to balance. DOR ruled that vote insufficient and required the Town to revote this. The subsequent vote to free cash was approved but the \$71k in budget cuts were not restored on the appropriation ledger.

6. Payroll for inspectors

We discovered that an inspector, who is paid a flat rate per inspection completed, is paid through payroll. The inspector only submits this payroll once or twice a year. We determined the inspector submitted payroll for 65 inspections all at once in January 2020. We recommend that the inspector submit for services performed on a timely basis in the future.