

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF TEMPLETON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2019



TOWN OF TEMPLETON, MASSACHUSETTS

MANAGEMENT LETTER

**FOR THE YEAR ENDED
JUNE 30, 2019**

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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, 2019, 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.

A handwritten signature in black ink that reads "Roselli, Clark & Associates".

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
November 18, 2019

OVERVIEW

The Town ended fiscal year 2019 on yet another very positive financial note. Unassigned fund balance in the general fund reached almost \$2.6 million or about 18% (15% is considered excellent) of general fund expenditures. This was driven by a favorable revenue/expense budget variance of almost \$1.8 million.

This marks the third consecutive year of significant general fund balance increases as the Town continues to positively recover from a period that was historically challenging. It is important for the Town to continue along this path. In February, the Town issued bonds for the first time in a number of years and was able to maintain the A1 rating it had back in fiscal 2014. This was a pleasant surprise given the Town's recent (2014 – 2017) financial history. Ratings such as this will provide the Town with a cost savings in debt service. The higher the rating, the more favorable the financing costs, so this is a very positive outcome.

The Town also managed to keep its financial and administrative team together for a fourth consecutive year which is a significant improvement over the previous five years which saw a revolving door of sorts in each of the financial and administrative offices.

The Town also continues to make progress in its daily operations. Management letter comments have been addressed and corrected; material weaknesses and significant deficiencies have been resolved and eliminated. A handful of comments remain with which we recommend management continue to address and resolve.

Another important development is the regionalization of the Town's accounting department. The Town is now providing accounting services to a nearby community and is being reimbursed for those efforts. This is a sign that the Town is becoming recognized as one with adequate and accurate enough systems to accomplish such a task.

We will reiterate what we stated in our last letter to management, that it is important for the Town to maintain this momentum as for the first time in a very long time the public can finally begin to regain some confidence in the accounting records and controls.

The remainder of the report reflects informational items and findings and recommendations. The Town should review these recommendations and, if determined to be cost-effective, implement these improvements. Items that have been repeated from past letters to management are so indicated.

INFORMATIONAL ITEMS

Statement on Auditing Standards No. 115 – Audit Communications

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

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

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance. Those that existed in the prior year have been satisfactorily resolved.

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

Network Security

Ransomware is an insidious type of malware that encrypts, or locks, valuable digital files and demands a ransom to release these files. The most common ransomware attack involves a victim opening an emailed file or clicking an attachment that appears legitimate like an invoice, but actually contains the malicious ransomware code. As these emails often appear to be legitimate, the victim is unknowingly baited into executing the ransomware code.

The frequency of ransomware attacks on U.S. municipalities continues to rise. The Associated Press reported in August 2019 about a coordinated ransomware attack that affected more than twenty local governments in Texas on a single day by what was then believed to be perpetrated by a single source. Ransomware attacks are opportunistic; the size of the victim organization and its available resources are not leading indicators to an attack. Once penetrated, ransomware attackers can cause a municipality’s technology resources to come to a standstill.

Effective protection first requires a commitment from a municipality’s leadership to dedicate the necessary resources to best protect the community. Technology personnel (internal and/or outsourced) must continuously exercise diligence in this area. Finally, this commitment then extends to all municipal employees who, whether they like it or not, are part of ransomware prevention/protection.

The U.S. FBI recommends that organizations provide ransomware training for their employees and employ robust technical prevention controls. The FBI also recommends developing a business continuity plan in the event of a ransomware attack. More detailed recommendations by the FBI Cyber Division can be found on the FBI’s website.

The Town's technology plans incorporate some prevention and protection measures including deploying anti-virus and anti-malware software, managing network permissions and access, regularly backing up digital data and requiring users to rotate passwords periodically. In addition, in the prior year, the Town completed a Network Security Assessment that highlighted areas that needed attention. To date these items have not been addressed, however we are aware that the Town is currently in negotiation with three companies to address the issues raised in this report. The Town expects this to be completed before the conclusion of fiscal year 2020.

Fraud Prevention Measures (repeated from prior year)

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

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

- 1) Perform a risk assessment of its most vulnerable business processes. This risk assessment should be performed at the highest level of the Town's management with inputs and interaction with the Town Treasurer and its Town Accountant. The documented results of this risk assessment should be evaluated; significant flaws in the design of the Town's current processes should be documents and steps for remediation taken.
- 2) Develop a written fraud policy. A Town-wide fraud policy should be developed and adopted by the Board of Selectmen. An effective fraud policy, among other things, clearly defines fraud, its employees responsibilities to report fraud, their rights should they become the subject of a fraud investigation, confidential mechanisms to report suspected fraud, the fraud investigation process, and disciplinary actions that the Town may take should an employee be found guilty of fraud. Once developed, this fraud policy should be clearly communicated to all employees, as well as, outside contractors and vendors.
- 3) The Town should perform periodic internal reviews of business processes, particularly those that include cash handling. The Town Treasurer and Town Accountant should identify departments whose business operations should be reviewed by evaluating the dollar amount and frequency of cash transactions within these departments. On a quarterly or semi-annual basis, a finance team should meet with these departments on a rotational basis to evaluate their current processes and, if necessary, recommend and implement enhancements and/or improvements. Furthermore, we recommend that this finance team establish dedicated days in its calendar for these procedures.

We understand that the Town will be addressing these comments as part of its fiscal year 2020 goals and objectives.

GENERAL FINDINGS AND RECOMMENDATIONS

1. *Lease accounting (new comment)*

The Town has begun financing capital assets through leases. There were two such lease agreements for three capital assets that were entered into during fiscal 2019. The total commitment to the Town relative to these arrangements over the next five years is almost \$700,000.

Copies of these and similar arrangements should be maintained by the Finance Office.

This is important to note for two reasons:

- New SEC disclosures require any direct financing arrangements which include leases to be publicly disclosed through an SEC filing. The requirement went into effect for any material arrangements entered into after February 26, 2019. Failure to meet these requirements will cause the Town to be required to issue a notice of violation.
- New GASB requirements that go into effect in fiscal year 2021 will require much more disclosure related to leases. As a result, the Finance Office should have available all leases for review during the audit.

In order to more easily comply with both SEC and GASB disclosure requirements, the Town is in the process of putting in place a more streamlined policy of processing leases which will consist of combining this with the liability insurance process. Beginning immediately, all information related to leases and liability insurance will be managed in conjunction with the Town Accountant's Office. Hilltop Securities will be made aware of all lease transactions and they will assist the Town with any disclosure requirements as a result.

2. *Interest Income Allocations (new comment)*

Typically, when a Town completes a large bond issuance, there is a significant amount of cash that is not spent immediately. This cash is typically kept in an account that earns interest until all the cash is spent. The interest earned in these situations should be credited as interest income in the general fund.

Per our review of capital projects, we observed that the Town recorded over \$125,000 in the capital projects funds. This is not a permissible practice and the Town should take steps to credit these funds to the general fund and avoid this accounting practice in the future.

The Town made the necessary entries to correct this oversight after we communicated this issue to them and thus has been corrected effective fiscal year 2020.

3. *Maximizing Investment Returns (update from prior year - resolved)*

As a result of our recommendation in the prior year, the Town reviewed its cash balances and has since moved about \$8 million in cash to bank accounts bearing 2.28% in interest. In addition, the Town continues to maintain about \$5 million in managed accounts. Investment income in the general fund increased from \$10,000 in fiscal 2018 to \$50,000 in fiscal 2019; and this was only for two months. Interest income should be appreciably greater in fiscal year 2020.

4. *System Security Audit (update from prior year – in progress)*

See previous comments under the informational item “Network Security”.

5. *Closing Checklists (update from prior year - resolved)*

In the prior year, the Town was met with some challenges when certifying free cash. We suggested that closing checklists would provide better direction in the process. As a result, the Town’s free cash for fiscal 2019 was certified with very little difficulty.

6. *Sewer User Charges (update from the prior year – resolved)*

The Sewer Department continues to handle all aspects of the user charges associated with the activity. Therefore, the internal controls surrounding this activity are not as complete as they should be. We continue to suggest that the Collector’s office be given the responsibility of collecting the user charges. This will provide better segregation and internal controls over the activity and provide a more efficient reconciliation process.

On April 8, 2019 an agreement was reached with VADAR between the Town and the Sewer department to transfer the Sewer User Charges to the Treasurer/Collector. This process will be completed with the second quarter billing in fiscal year 2020.

7. *Compensated Absences (update from prior year – in progress)*

The Town continues to struggle to provide a calculation and the supporting backup for its compensated absences. The same amount has been used for at least three straight financial statements due to the lack of an updated calculation.

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.

The Town has developed a better process in fiscal year 2020 to address this omission. Under the new process this information will be made available as part of the audit packet given to the auditors.

8. *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.

We understand the Town will be reviewing this as part of the 2020 tax recap certification process and hopes all effected parties will participate in reaching an amicable solution.

9. *Capital Assets (update from prior year – resolved with additional suggestions)*

During fiscal 2019, the Town converted its inefficient Excel based tracking system for fixed assets to fixed asset software customized for financial statement reporting. Therefore, the comments in our prior year report have been resolved.

The new reporting system allows the Town to track and monitor fixed assets much more efficiently. Per our review of the reports that were generated, we observed that the listing has many assets, particularly vehicles, that are most likely no longer in service. We suggest the Town utilize this new system to identify those assets that are no longer in use by sharing data from the system with department heads. Once identified, the Town should remove these fixed assets from the inventory.

In the future, when fixed assets are sold, traded in, or junked, this information should be reported to the Town Accountant immediately. An assessment can then be made if the disposal was made through legally acceptable means prior to recording it.

Inventories should be taken periodically, and the listing should be updated at that time.

10. *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 2019 and the outstanding balance increased by 43%.

This has not been resolved but has been included as a goal to address and resolve as part of the fiscal year 2020 plan.

11. 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 2019, 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.

This has not been resolved but has been included as a goal to address and resolve as part of the fiscal year 2020 plan.

- 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.

This was analyzed and it was determined that it is not cost effective for Templeton to implement a lock box system.

- 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.

This has not been resolved but has been included as a goal to address and resolve as part of the fiscal year 2020 plan.