

TOWN OF WEBSTER, MASSACHUSETTS

MANAGEMENT LETTER

FOR YEAR ENDED

JUNE 30, 2017

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TRANSMITTAL LETTER

The Honorable Members of the Board of Selectmen
Town of Webster, 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 Webster, Massachusetts (the "Town"), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 23, 2017.

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 control deficiencies, significant deficiencies, or material weaknesses. We identified a deficiency that we considered a material weakness. This is identified as such in the body of this report.

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 and Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
March 16, 2018

OVERVIEW

In the Overview section of our letter to Management dated May 26, 2017, we described the many various reasons why the Town's financial and administrative departments struggled to meet acceptable financial, administrative, regulatory and internal control goals.

These can be summarized as follows:

- The inability to address the numerous issues identified by the Department of Revenue in their financial management review completed in 2004 that continued to repeat as late as 2016.
- The resignation of the Town Administrator in 2015 that led to the Town Accountant taking on this responsibility on an interim basis and thus holding dual critical roles for approximately 18 months.
- The lack of a complete collaborative and communicative effort of critical department heads including the ability to resolve issues using a team-work approach.
- The complexity of certain transactions and lack of training, experience and education in those complex matters such as self-insurance transactions and MSBA reimbursement projects.
- The historic and current poor demographic condition of the Town which limited and continues to limit the resources to devote to the key financial areas.

Resultant of this and a confluence of other existing more minor situations was the discovery of numerous findings and deficiencies several of which were identified as material weaknesses in our prior year letter.

A new Town Administrator was appointed mid-way through fiscal year 2017. Our firm was appointed to complete the audit for fiscal year 2016 shortly thereafter. (It was our first experience auditing the Town). Our Management Letter dated May 26 was issued towards the end of June. Upon issuance of the Management Letter, the Town Administrator initiated an aggressive action plan to address the audit issues. However, because the 2016 audit had such a major delay it was not reasonably possible to expect all items to be corrected by the time the records were closed for fiscal year 2017 in September.

Despite that we are pleased with the progress that was made in those 90 days and the action plans in place to address those remaining items. Please review the discussion in the current year management letter in conjunction with the prior management letter for a more detailed understanding.

The following summarizes the notable items that were improved or completely corrected:

- We observed a much better team approach and improved overall collaborative effort between the financial and administrative departments. We believe this was the strongest driver behind the turn-around effort. That it took place in less than 90 days is noteworthy.
- The comments on receivable reconciliations were improved dramatically. Variances were reduced or corrected completely. The remaining more minor comments have allowed us to reduce this from a material weakness to a regular finding.

- The comments on audit and delayed single audit deadlines have been completely addressed and are no longer compliance findings. All reports were completed and submitted timely.
- The comments regarding tardy submission of reports to the Department of Revenue has been satisfied. The Balance Sheet and Schedule A were completed and turned into the Department of Revenue timely. This is no longer a compliance finding.
- The cash reconciliation process in fiscal 2017 was much cleaner. Many reconciliation variances were corrected and adjusted. The remaining reconciliation variance is not material and thus, this comment has been satisfied and is no longer a significant deficiency or a finding.
- The comments on Capital Projects maintenance are being addressed. We did not expect this to be completely fixed in 90 days as it involves research. Regarding stagnant surplus and deficit balances; some surpluses were spent down, and some deficits were corrected but the process is ongoing. The MSBA deficit was resolved through a BAN and 10 - year old Town Meeting transfers were finally made. We have removed the material weakness designation however this will remain a regular finding until completely resolved.
- At the October 2017 Town Meeting, with the support of the Assessor, the Town elected to exempt all property equal or less than \$4,000 in taxable value. This will provide more efficiency in the collection of taxes in future periods.
- In response to our comment on the lack of formal financial policies and procedures, on March 12, 2018 the Board of Selectmen formally adopted policies and procedures that are currently being implemented.
- The comments on the Homeless Transportation grant have been addressed; journal entries have been made and the transaction type was handled properly during 2017.
- The Town addressed the comment on the Recreation Revolving Fund by adopting the proper legislation at the Special Town Meeting in October 2017; however new issues have surfaced with the cash handling that are included as a finding in the current year.
- The Town addressed the comment on the Waterways Improvement Fund; journal entries have been made and the account has been brought to proper balance.
- Police detail receivable reports were run near the end of the year before balances were purged and compared to the deficit balance; the balances on the report were materially equivalent to the balance of the deficit. However, the Police have yet to complete an analysis of the detailed accounts to determine if some of these need to be abated.
- The Cable Peg Access Funds were authorized as Receipts Reserved for Appropriation at the July 2017 Town Meeting.
- The issues surrounding the accounting for sewer receivables were corrected and presented properly at the end of fiscal 2017.
- There were no prior period adjustments required to the 2017 financial statements, so this comment will be removed.

It is encouraging to observe that Town Administration and the Financial Team took seriously the comments in the prior year. The many improvements as discussed above are evidence of that. We are pleased with the result. It is important to maintain this level of motivation and ambition as the Town addresses the remaining areas that were identified in the prior year report.

In the remainder of this report we will include those comments that were not resolved completely together with the Town's plan to resolve those items, and any new findings that emerged as a

result of our 2017 procedures. Since only 120 days elapsed between the two audit fieldwork dates and because we were completing the 2016 audit well into fiscal 2017 our expectation that the 2016 management letter would also cover many items that existed in 2017 was met as new findings are limited

We urge the Financial and Administrative teams to continue to use this management report as a blue print to correct the remaining issues presented.

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. *We have classified one item under this category which improved from six last year. That item is identified as such in the applicable section where it is 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. *The majority of the findings in this report are included under this caption.*

Municipal Data Breach Protection

We continue to recommend that the Town engage a company that specializes in data security audits. Municipal organizations continue to be high profile targets for cyber-attacks and intrusions. In the last three years there have been more than a few attempts to electronically steal multi-million dollars through phishing schemes in Massachusetts alone. The security audit will detect where Towns are vulnerable to these attacks.

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 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) 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.

Given the turnover in the Town Accountant's Office we felt it was important to communicate this to the new individual who will be appointed.

Other Postemployment Benefits

We observed that the Town does not currently attempt to fund OPEB at any level. The emergence of numerous new accounting standards in recent years has brought this issue to light; this is beginning to be an uncommon position as many communities have recently begun making contributions to an OPEB Trust Fund, some in a significant manner.

We suggest the Town begin including some level of OPEB funding in its future strategic plans.

Changes to Single Audit Requirements – Need for Internal Control Framework

One of the many new requirements under the new Uniform Guidance (the successor to the OMB A-133 compliance supplement) is that all federal award recipients are required to establish an internal control system based on a recognized internal control framework such as the Green Book or COSO.

The Town is the recipient of significant federal educational awards as well as federal monies related to its CDBG operations and various other governmental grants. Many Massachusetts municipalities of similar size to the Town are focusing their efforts solely at the school level, for which the MASBO provides significant guidance, including policies and procedures templates. The proper implementation of any internal control system requires coordination or resources between not only the Town Accountant, but also the School Business Office and the Town Treasurer.

We recommend that the Town's finance team prioritize this matter to properly establish their internal control system before the start of its next series of large federal educational awards in the summer of 2018.

MATERIAL WEAKNESSES

Self-Insurance Internal Service Fund

*** *Noncompliance with Laws and Regulations***

*** *Material Weakness in Internal Control***

There has been much written on the topic of the Town's Self-Insurance Internal Service Fund; most of the discussion revolves around the Town's collective inability to properly code receipts to the fund and properly account for the employee/employer ratio of the fund balance. As a result, this was incorrectly stated over the years.

The Town engaged us to complete a study of the Fund going back 10 years; we estimated that to cure the employee/employer ratio the Town would need to appropriate between \$400,000 and \$500,000 to the fund as well as grant the employees a holiday of over \$300,000.

At the October Town Meeting, in concert with our recommendations, the Town voted to transfer \$375,000 into the fund. The Town is expected to evaluate this during fiscal 2018 and determine if these funding requirements and holidays remain constant or if actual results in fiscal 2018 would suggest a different amount. This will be trued up at the end of fiscal 2018 as the Town is expected to transition to a premium based plan or a larger insurance collaborative in fiscal 2019.

To understand this complex matter in detail we refer you to the prior year management letter dated May 26, 2017 and the special study dated September 20, 2017.

We continue to report this as a material weakness for fiscal 2017 as the proposed improvements to this condition were not planned until fiscal 2018 and at this time have not been audited.

<p style="text-align: center;">GENERAL FINDINGS AND RECOMMENDATIONS – STATUS OF PRIOR YEAR UNRESOLVED ITEMS</p>
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Capital Projects Maintenance

As discussed in the Overview, the Town has resolved the issues surrounding the MSBA reimbursements by borrowing \$4.7 million prior to June 30, 2017. In addition, transfers that were authorized 10 years ago by Town Meeting have finally been recorded. As a result, we moved this from the Material Weakness bucket into and characterized this as a deficiency which is the lowest level of finding.

We are happy that the Town has a plan in place to resolve the stagnant balance issue by June 30, 2018. Given the turnover in the Town Accountant's Office we hope this remains on track.

The following is the status at June 30, 2017 of the stagnant balances:

Stagnant Accounts (accounts with little or no activity during fiscal year 2016 and 2017)

1. Eight governmental accounts had a combined deficit balance of \$484,872 (down from well over \$800,000 last year and one large one for almost \$400,000 would resolve most of this).
2. Twelve governmental accounts had a combined positive balance of \$168,455.
3. Two water fund accounts had a combined deficit balance of \$106,944.
4. Seven water fund accounts had a combined positive balance of \$209,766.
5. Four sewer fund accounts had a combined deficit balance of \$704,937.
6. Eleven sewer fund accounts had a combined positive balance of \$546,903.

Receivable Reconciliations

In the prior year we identified the receivable reconciliation process as a material weakness due to the number of large variances that existed. The Town worked to reduce these variances and the following remain:

1. The prior year variance of \$53,123 in outstanding real estate taxes was reduced to \$11,850.
2. The prior variance in tax title of \$185,529 has been reduced to \$104,962.
3. The Town does not have a detail of foreclosed properties. This is still a finding with no progress in 2017.
4. Balances in unapportioned betterments in the sewer and water funds which were overstated by \$259,474 in the prior year have dropped to approximately a \$20,000 variance in aggregate.

This is no longer a Material Weakness.

Lack of Documented Policies and Procedures

A prior year comment suggested the Town should review and formally document policies, procedures and controls for key financial transactions, including cash, tax/utility billing, departmental receipts, purchasing, vendor disbursements, employee benefits and payroll if formal policies are not already in place. Without such policies, these transactions are at risk of being performed in an inconsistent and inefficient manner by the Town's departments.

In the Town's prior year reply it established a completion date for this as December 31, 2017; given the turnover in the Town Accountant's Office we do not believe this has been completed.

Appoint and Combine Treasurer/Collector

The Collector and Treasurer are elected positions currently held by separate individuals. The election method for selecting the Treasurer/Collector is hundreds of years old and dates back to a time when these positions were political figures as opposed to the full-time working positions that are the requirements of these positions today.

The Department of Revenue in its Financial Management Review in 2004 recommended that these positions become appointed. In the prior year we included as a reminder for the Town to evaluate the Department of Revenue's position. We also believe that since over 250 communities use a combined Treasurer/Collector, the Town should consider adopting an amendment to its charter combining these two positions into one.

Consistent with the Town's reply to this comment in the prior year, the Town placed this charter change before the Town Meeting in October and it was successful. It is now in the hands of a ballot vote in May with an anticipated implementation date of May 2020.

Payroll Withholdings

The Town maintains twelve payroll withholding balances in its general fund with a total combined debit balance of \$28,847 at June 30, 2017, 2016 and 2015. While the year-end balances in these accounts have remained relatively unchanged for several years, each of these accounts has activity each weekly payroll cycle; withholdings are collected from weekly payroll transactions and paid out to the appropriate third party almost immediately. Therefore, the \$28,847 combined debit balance represents an unsubstantiated asset (as these are debit balances) and therefore should be written off.

This was not corrected prior to the 2017 close and should be addressed in the current fiscal year.

Transfer Station Management Contract

The transfer station management contract is up on November 1, 2017. The existing ten-year contract provides no revenue to the Town and also requires the Town to pay for capital improvements/repairs. The Town Accountant indicated that the previous contract provided revenue to the general fund of approximately \$100,000; in addition, the contract is written so that

the renewal is at the sole discretion of the transfer station operator, contrary to the Town Meeting vote authorizing the 10-year contract.

We recommend that the Town use the competitive bid process to select its next transfer station operator. By using a competitive bid process, the Town has a better chance to secure terms that are more favorable to the Town.

The Town conducted a competitive bid process in October; as a result, the same operator was selected however the Town is now receiving an annual lease amount of \$25,000.

Stagnant Special Revenue Account Balances

We filtered through the Town's approximate 176 Special Revenue accounts and determined about 39% (sixty-eight) of the accounts, fifty-seven totaling about \$266,176 in surplus and eleven totaling about \$6,697 in permanent deficits that did not have any activity during 2016 and 2017. There was a slight improvement from the prior year.

We suggest the Town conduct the following housekeeping process:

1. Review all accounts with deficits and determine if other accounts in the same cluster/family have surpluses that are stagnant. For example, the education grant cluster has funds that have been in deficit with no activity but also has funds with surpluses. In all likelihood, coding errors between these accounts existed and this would be an opportunity to clean these up by netting them with each other.
2. Review all the revolving funds and determine if these should continue to be active revolving funds or if they should be discontinued, closed to the general fund and have the activity accounted for in the general fund.
3. Review all remaining accounts and categorize them into buckets by department. Then schedule meetings with department heads and determine if the account is valid and should be maintained or if it has no further purpose and closed out.
4. For all those accounts remaining after this process has been conducted, consider making a housekeeping entry as discussed above if the balances are not material; and if material consider Town Meeting action to clean up the balances.

We understand that this is an ongoing process expected to be completed by the end of fiscal year 2018.

Special Revenue Deficits

As of June 30, 2017, there were 38 accounts that were in deficit for a combined amount of about \$455,620; approximately \$270,000 were funded subsequent to year-end and most of the remainder consisted of Police 911 - \$52,220, Chapter 90 - \$85,734 and SWCCC - \$23,624

many of these accounts were funded with grant receipts subsequent to year-end however the Police 911 account appears to have a significant permanent deficit since only \$86,000 was received to cover almost \$191,000 in deficits. The Chapter 90 deficit is received very late each year and had not yet been received as of the date of field work. The Town should review the Chapter 90 process and determine if the process of requesting reimbursements could be more efficient.

These findings have yet to be addressed.

Trust Fund Deficits

The Police Department maintains several funds in the Town's expendable trust fund. Three of these funds had deficits that totaled approximately \$118,000 at year-end, including an \$86,000 deficit in the Federal law enforcement trust fund. The deficits are due to a lack of reconciliation between Town and Police Department records and most likely are due to invoices that were paid from the incorrect fund and never discovered. We suggest the Town and Police Department begin the process of reconciling these accounts with a focus on the Federal funds that have federal reporting and compliance requirements.

In addition, the Town has five other trust funds that have deficits that total approximately \$30,000. We recommend that the Town Accountant work with the individual departments and Town Treasurer to eliminate the deficits in these funds.

These findings have yet to be addressed.

Police Details

As we discussed in the Overview section of this report; the Town obtained a receivable report from the Police Department shortly after year-end and the total on this report was materially accurate when comparing to the deficit in the general ledger.

The Town should continue to obtain this report and complete this reconciliation at least on a quarterly basis.

The last remaining issue under Police Details is to go through the account receivable report line by line and consider the collectability of the outstanding amount. The Police should create an abatement policy and begin to clean-up some of these very old accounts.

Title V

The Town maintains a balance of \$106,000 related to Title V septic replacement and repair funds at year-end. The only activity during the year was a few small payments from residents. The Town should use funds to pay down the MCWT debt or undertake a better marketing campaign to loan the funds to eligible residents who are in need of these repairs.

This finding is still outstanding however, the Town is currently evaluating how to best use these funds.

Special Assessments/Betterments

A few years ago, the Town voted to use special assessments to subsidize certain debt of both the water and sewer departments. In many situations users pay in advance to avoid the interest costs associated with the assessment. The Town has not segregated these amounts into a separate stabilization account as is permissible under Massachusetts General Laws; so the Town is unable to identify the amounts it has collected to date on these assessments and also what portion of these assessments have already been used to pay down debt. The amounts have simply been allowed to close to retained earnings and then may have been used for operating purposes.

As a result, the Town may need to assess higher user charges in the future to accommodate the debt service on these projects that were intended to be partially paid through assessments.

We suggest the Town research the history of the special assessments and determine what portion if any is buried in retained earnings and then move those funds to a special reserve account for debt service as is now required under the Municipal Modernization Act.

This item has not been addressed yet.

Tax Collection Process

In the prior year, we discussed the Town conducting an assignment of its tax titles pursuant to Massachusetts General Laws Chapter 60, Sections 2C and 52. This would provide the Town with a quick influx of cash flow and make delinquent tax roles current.

The Town held a conference with a specialist that deals in this area to begin to educate itself of such a procedure. The discussions are still ongoing and while this has been very successful in many communities throughout the Commonwealth, the Town has not yet to decide if this is a beneficial option for them.

CURRENT YEAR FINDINGS

Recreation Department Cash Handling

At June 30, 2017, the Recreation Department was run almost exclusively by an appointed recreation board and unpaid volunteers. The recreation department manages a number of town-wide programs and generates revenues from a number of sources including activity fees, food and beverage sales and vendor registration fees. During 2017, the Recreation Department changed the manner in which it was processing and accounting for its cash receipts, which made reconciling the accounting activities of these events near impossible. There are a number of causes for these discrepancies including misunderstanding of Town policies and cash handling requirements under MGL and human error. Furthermore, it is likely that event proceeds are being used to procure goods directly from vendors versus having vendor purchases run through the Town warrant process.

While the financial effect of these discrepancies is not significant to the Town as a whole, it is indicative of two things – (1) ineffective communication between the Recreation Department and the Town's accounting and finance personnel and (2) a breakdown in the internal controls for cash handling for these events.

We understand that the Town appointed a new Recreation Director in October 2018 to manage its recreation department. The use this employee will likely reduce these accounting discrepancies and errors as this is a required duty of the job.

We recommend that the Town reevaluate the current accounting processes for its recreation department and establish formal policies and procedures for cash handling, accounting and turnover of event proceeds. Furthermore, we recommend that the Town train those involved in cash handling within all departments on their fiduciary responsibilities under MGL to their end customers and the Town's tax payers.