

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF WINCHESTER, MASSACHUSETTS

Management Letter
Year Ended June 30, 2023

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TOWN OF WINCHENDON, MASSACHUSETTS

**MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2023**

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Board of Selectmen
Town of Winchendon
Winchendon, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Winchendon, Massachusetts, (the “Town”) as of and for the year ended June 30, 2023, 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 control deficiencies, significant deficiencies, or material weaknesses. However, we identified multiple material weaknesses based on our procedures and those are identified as such in 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 & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
June 20, 2024

I. INFORMATIONAL ITEMS

Statement on Auditing Standards – Required Audit Communication to Governance

The American Institute of Certified Public Accountants (“AICPA”) issued Statements on *Communicating Internal Control Related Matters Identified in an Audit*. These standards provide guidance on communicating matters related to an entity’s internal control over financial reporting identified in an audit of financial statements. In particular, the standards 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 and those items are identified as such in the applicable sections where they are discussed in this report.

Control deficiencies are not required to be communicated; however, these are also reported in this report in order for the Town to strengthen its internal controls and operating efficiency and for full transparency.

Investment Income

At year-end, the Town carried over \$12 million in cash and equivalents and over \$11 million in the prior year or an average of \$11.5 million. Actions by the Federal Oversight Market Committee beginning in 2022 and throughout 2023 raised the rate on borrowings significantly. These actions had a collateral impact on investment yields. Many short-term instruments, such as MMDT, certificates of deposit and government treasuries exceeded 5% and approached 5.7% during 2024. These are legal investments for the Town’s excess funds.

The Town’s Trust Funds and Stabilization Funds are managed professionally but none of the other cash accounts are in bank accounts earning over 1.75% as of the end of 2023 with the majority under 1%. Despite our comments in the prior year management letter, efforts were not made to move accounts into higher yielding securities and as a result the Town forfeited a significant amount of interest probably approaching \$250,000 - \$300,000.

This comment serves as an alert to the Town that investment strategies not available to the Town in at least 20 are presenting themselves, and could be financially beneficial. Each \$1 million invested could return \$40,000, using an effective safe and liquid strategy.

Network Security (repeated)

We continue to annually remind our communities 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.

Periodic training of employees is a must in addition to continuing to challenge the system in place. A few years ago, the Town completed a network security assessment, and this can be used as a tool to improve or strengthen the current system.

We urge the Town to continue to monitor this critical area and take advantage of Compact Cabinet grants which will be open for up to \$200,000 beginning September 4, 2024. These grants may be used to subsidize IT upgrades including security.

Fraud Prevention

This comment serves as an important reminder to emphasize the importance of fraud prevention. Evaluating controls in all aspects of local government, especially 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.

This is particularly important in light of the multiple levels of turn-over in all the key administrative and financial positions.

There is currently no evidence suggesting these risk assessment measures are currently being completed by the Town.

ARPA

As the deadline for obligating funds received from the American Rescue Plan Act approaches, we remind our clients that funds must be obligated by way of a legal commitment or purchase order by December 31, 2024. Merely implementing a plan by approval of the Selectmen is not sufficient.

II. MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

In addition to the material weaknesses described in this section, there are multiple material weaknesses and significant deficiencies reported as part of the Single Audit. Please refer to the discussion in the Single Audit reports as these will not be repeated here.

Treasurer/Collector

1. Qualifications

During fiscal 2022, the Town appointed one of the Assistant Office Clerks to be the new Town Treasurer. This individual had no formal training in how to manage cash, debt, receivables, reconciliations nor any of the other major responsibilities of the Treasurer/Collector's Office. The individual was very reluctant to take on this position but was promised every opportunity to obtain training and transition into the position slowly.

Town leadership never provided this training, and despite this person being motivated and eager to learn and attempt to produce at a high level, it simply never happened. As a result, our professional standards require us to deem this individual as an individual that does not possess the necessary skills, experience and knowledge to efficiently and accurately administer the functions in the capacity of Treasurer/Collector.

Because of this, many operational, accounting and administrative issues surfaced during our audit that are very severe in nature and have carried through all of fiscal 2024. Compounding this issue was the conversion of the collection software to a system which nobody truly understands.

This person was replaced during 2024 and the new Treasurer/Collector, while more experienced has a significant amount of catch up to make sure the records for fiscal 2024 are accurate and closed in a timely fashion. It is critical that Town leadership monitor this situation very closely and provide whatever resources are necessary to avoid fiscal 2024 having a similar outcome as fiscal 2023.

The discussion that follows summarizes the more significant issues in the Treasurer/Collector's Office that were observed during the audit. All are classified as material weaknesses.

2. Bank reconciliations

In the prior year, we alerted the Town that the bank reconciliations for the vendor account did not appear accurate. It seemed like a large variance was offset by outstanding checks that should have been void. Subsequently, during the 2023 audit, we learned that the vendor bank was never reconciled for the entire period of time that the Treasurer held that position which was nearly two years.

The former Treasurer was hired as a consultant to help resolve this problem. It was determined that there were 31 overfunded items approximating \$500,000 and 88 underfunded items approximating \$250,000 that had not been addressed over the two year period.

Some of the larger items related to:

- a. Auto pay for a lease that was never placed on a warrant and never reported to the Town Accountant.
- b. Auto pay for debt that was never placed on a warrant and never reported to the Town Accountant.
- c. Wires received from the State that were not placed on a turnover sheet and not reported to the Town Accountant. (This caused issues with the School Department).
- d. Checks that had been void which the Bank erroneously placed back on the outstanding checklist. These exceeded \$100,000.
- e. Multiple other more minor items.

There were so many errors and oversights that we suggested that the new Treasurer open a new vendor account and allow the old vendor account to close down. In doing so, all checks will clear and eventually a residual balance would remain which the Town will be able to adjust once there is some assurance that remaining activity will be limited. The new account should be reconciled monthly along with all other accounts and Town leadership should make sure this is being done by monitoring this progress at the weekly financial team meetings. Evidence of the reconciliation should be provided by the new Treasurer.

3. Reconciliation of Treasurer's Cash to Town Accountant Cash

This reconciliation was never completed during the year, and we do not believe it has been completed at all during fiscal 2024. At the end of 2023, there remains a variance of \$250,000. This is a positive variance suggesting the bank balance is larger than the book balance. This will carry into fiscal 2024 and most likely into fiscal 2025. We can't underestimate how critical completing this reconciliation is. Efforts should be underway immediately for the new Treasurer to complete this reconciliation with the Town Accountant or bring in the necessary resources to accomplish this task. Ignoring this will only increase the level of effort and cost to reconcile it later.

4. Backup for Outstanding Receivable Balances

Balancing the outstanding receivables between amounts recorded in the general ledger and detail records maintained by the Town Tax Collector is a critical control that contributes to the accuracy of the overall accounting records. The Massachusetts Treasurer Collector Association recommends this is completed monthly. This critical process was not completed at any time during fiscal 2023. In fact, backup was not provided by the Collector for nearly \$3.7 million of the outstanding receivables recorded in the general ledger. Similar to the comments under cash reconciliation above, there is no evidence any of this has been accomplished for any of fiscal 2024.

Efforts should be underway immediately for the new Collector to complete this reconciliation with the Town Accountant or bring in the necessary resources to accomplish this task. Ignoring this will only increase the level of effort and cost to reconcile it later.

5. Bond Anticipation Notes Management

During the year, the Town rolled over a bond anticipation note to a lower amount. This is a common practice amongst municipalities. While completing this process, the bank inadvertently deposited \$100,000 less than the required amount into the Town's bank. This was not discovered by the Town until many months later when the new Town Manager was assisting the Town Accountant in closing the books for submission of the balance sheet to the Department of Revenue for free cash.

Any time the Town undergoes a debt transaction, whether it is a BAN rollover, a new issuance, a payment or a refunding, it is very important that the end result is reconciled back to the anticipated result and all appropriate entries made. Some of these transactions are very complicated. If necessary, the Town can obtain assistance from the financial advisor.

6. Insurance Appropriation

While the Town was processing year-end transfers, a determination was made that the health insurance appropriation had a large surplus. This balance was subsequently transferred to another appropriation balance. Shortly after this, it was determined that only 11 health insurance payments had been made and there was in fact one more month to pay. This resulted in the health insurance appropriation being overdrawn and the amount needing to be raised at the Special Town Meeting.

It is important for the Treasurer to understand the appropriations under their control. If an unusual balance exists, a inquiry should be made to determine where things stand. The Town's health insurance process led to major issue a decade ago and its important management of this volatile expense is not overlooked.

Town Accountant

Arguably the most important finance related employee in the Town is the Town Accountant. This individual oversees the office responsible for gathering all financial related information from all departments. This includes posting this information to the general ledger, reconciling the information back to the departments from which the information was received, compiling this information into easy-to-read reports and submitting this information to the Department of Revenue (DOR) in order to certify free cash.

In Winchendon, this position oversees a fairly complicated reporting process that includes a school, three enterprise funds, multiple grants with varying legislative administrative requirements, a redevelopment authority and very challenging deadlines.

Similar to the Treasurer/Collector the individual appointed to this position did not in our opinion have the experience needed to complete the tasks associated with this position in a timely and accurate manner. Also, similar to the Treasurer/Collector, the individual is very motivated and eager to learn and be as successful as possible in this role but has never received the proper training.

In order to accomplish this, we believe this individual needs oversight from a municipal specialist, on at least a monthly basis as she transitions into the role and becomes more

proficient. While the Town Manager is also a former Finance Director, we do not believe oversight from the Town Manager is sufficient as the Town Manager needs to focus on the duties of Chief Executive, which in Winchendon are very challenging.

Some of the lack of controls and issues noted include:

1. Lack of reconciling cash balances with the Treasurer.
2. Lack of reconciling receivable balances with the Collector.
3. Lack of reconciling School grants with the School Business Officer.
4. Submitting the balance sheet material to the DOR twice due to errors in the first submission.
5. Incorrectly reporting grant balances whose beginning and ending balances were exactly the same despite activity.

This led to errors in reporting, especially related to the utility receivables and variances in cash, receivables and school grants.

We strongly recommend the Town engage the services of a municipal specialist to oversee and train the current Town Accountant and assist in enhancing this individual's skills. This individual was promised this assistance upon accepting the position, but Town leadership did not provide it.

School Business Office

The School Business Office has had significant turnover for many years. No less than at least 10 individuals have held the position in the last 12 years. The problems in this office have been compounded by employing 5 or 6 Superintendents over this period of time. As a result, it has been very difficult to maintain any level of consistency with the management of the finances at the School.

This has resulted in the inability to establish consistent lines of communication with the Town Accountant and Town Treasurer that has led to some of the issues previously discussed with respect to reconciling activity. In addition, the final school payroll was a split payroll between 2023 and 2024. However, it was not recorded properly, and 2023 school payroll for this pay period was charged completely to fiscal 2024. Had this been done in the proper period, it would have resulted in a deficit in fiscal 2023.

The School has used a consultant to prepare the end of year report and we suggest they continue this practice until it can employ an individual with the necessary skills, experience and knowledge to hold the position for over a year.

III. OBSERVATIONS

Collection of Receivable Balances

Current receivable balances in total are increasing at a staggering rate. Real Estate and Personal Property taxes have increased by \$0.5 million over the prior year, while tax title collections are at an all-time low of \$13,000 and tax foreclosure balances have not changed in multiple years.

It appears as though aggressive efforts to collect taxes have come to a complete standstill. Demands are not delivered timely, and it does not appear as though a tax title process has been completed since 2021. In addition, there have been no tax takings since at least 2020.

Continued lack of effort in this area could lead to a material financial consequence. Real and personal property taxes collected in 2023 were nearly flat as compared to 2022 despite the amounts billed increasing by \$433,000.

Insurance Withholdings

The Town's insurance withholding balances have increased dramatically in each of the last two years. Health and dental withholdings increased from \$128,000 in 2021 to \$206,000 in 2022 to \$369,000 in 2023. Such an increase leads us to conclude that there are potentially significant coding errors between appropriation and withholding accounts or excess withholdings have been withheld from employees' pay. In any regard, this unusual activity should be investigated.

Tailings

The Town's tailing account of approximately \$54,000 has not changed in at least 3 years. Since these are amounts that have been advertised and they have existed more than 12 months, this amount can be journaled to income.

On the flip side, there are many outstanding checks greater than 12 months old on the Town's outstanding checklist. The Town should complete an abandoned property process by advertising these stale items and moving them to tailings.

Other Postemployment Benefits Liability

In 2023, the Town overlooked the process of providing its actuary the necessary information to calculate its other postemployment benefit liability in a timely manner. This information was not submitted until well after year-end and contributed to the significant delays in the audit.

The process of obtaining an actuarial valuation should begin in the summer, shortly after the year ends. This will ensure that the valuation is complete in time for the audit.

Compensated Absences

Similar to other postemployment benefits, the Town needs to calculate a liability for vacation and sick days earned but not used in a timely manner. During fiscal 2023, the

information was not received from the Town until April and from the School in June. This also contributed to the delays in the audit.

The Town should begin to calculate this information shortly after the end of the year to ensure it is available for the audit.

FEMA

The Town's FEMA balance currently maintains a deficit of nearly \$300,000. This relates to funds expended during Covid that were not charged to the CARES grant but instead to FEMA. The Town should monitor this situation very closely since it will need to raise this deficit if it is not funded.

Stagnant Balances

The Town currently maintains 120 special revenue accounts that have not had any activity in at least 12 months. The balances in these accounts approach \$650,000. Some of these funds relate to grants received 3 or 4 years ago. The Town should investigate these balances and determine the following:

1. Are they grants that were not spent in which funds need to be returned to the State.
2. Are they gifts and revolving funds that have simply been forgotten and could be spent.
3. Are they coding errors in which the expenditures were charged to the general fund and thus should be returned to the general fund.

In addition, the Town has about a dozen capital projects funds that are stagnant. These total over \$350,000. The Town should determine if it can reappropriate these or if there is still a spending purpose associated with these funds. These can also be used for debt service up to \$50,000 annually.

Ambulance Receivables

We continue to recommend that the Town review ambulance activity and reconcile the general ledger balance to the amounts maintained by the third-party service provider. The general ledger balance was approximately \$50,000 less than the amount reported in the third-party reports. In addition, the outstanding receivables are continuing to increase at a significant pace. The current balance of approximately \$740,000 is 80% greater than the prior year. In addition an amount related to receivables that were assigned of over \$400,000 has been on the books for several years.

We suggest the Fire Chief work with the financial staff and compile a list of balances that are most likely uncollectable and propose that these are abated.