

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF WINCHENDON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2019



TOWN OF WINCHENDON, MASSACHUSETTS

**MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2019**

Table of Contents

| | |
|------------------------------------|-------|
| Transmittal letter..... | 1 |
| Overview..... | 2 |
| Informational Items..... | 3 - 4 |
| Findings and Recommendations | 5 - 7 |



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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, 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 control deficiencies, significant deficiencies, or material weaknesses. We identified deficiencies that we have considered significant deficiencies. Those are 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 & Associates
Certified Public Accountants
Woburn, Massachusetts
December 3, 2019

I. OVERVIEW

Fiscal year 2019 marked the year the Town made its final paydown on the special legislation deficit borrowing it undertook during fiscal 2015. Much has been written and discussed about this deficit and the subsequent borrowing over the past five years, but the Town can finally place this behind them and move on. By making this final payment, six years ahead of schedule, the Town has been released from the covenants associated with this note and can focus to the future and continue to improve on what has been a tremendous financial and operational turnaround that in future years will be looked back upon as historic.

Fiscal year 2019 also marked the fourth consecutive year of positive operations for the Town. Strong management practices implemented as part of deficit legislation remediation, combined with a strong economy have managed to bolster the Town's unassigned fund balance to approximately 10% of annual expenditures. This is even more remarkable considering that \$3.5 million of the Town's aggregate surpluses over these four years were directed towards paying down the deficit legislation.

The Town is also undergoing many significant financial and administrative transitions summarized as follows:

1. New Superintendent of Schools – replaced retired former Superintendent of Schools.
2. New Town Accountant – replaced former Town Accountant who resigned.
3. New Assistant Town Accountant – replaced former Assistant Town Accountant who was promoted to Town Accountant.
4. Temporary School Business Manager – replaced former School Business Manager who resigned.

Given the volume of transition, it is important that the Town continue to work together and maintain the momentum that has been created over the past several years. The Town has worked hard to resolve most of its findings as can be observed in the reports, however the area that continues to be a challenge is School Administration. Now that a new Superintendent of Schools has taken over it is critical that the findings that have lingered for the last six or seven years are taken head on and resolved. We would hope that the Town and School will work together, with guidance from the Audit Committee to put together a plan to finally clear these items by the end of fiscal 2020.

II. INFORMATIONAL ITEMS

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 recently completed a network security assessment. It is important that the Town review the resulting report carefully and take the steps necessary to strengthen controls in the areas identified.

Long-term obligations

An area that has not been given much attention but will become very important over time is the area of long-term liabilities; namely OPEB and Pension. 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 six 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 \$23 million and the OPEB liability at about \$24 million. Recent GASB pronouncements have forced Towns 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, there is currently no funding process in place for the OPEB liability. Given the Town has put some very challenging financial issue behind it, now is the time to begin to

think of what strategy to use to fund OPEB. We recommend that a committee is created to begin to address this.

Changes to Single Audit Requirements – Need for Internal Control Framework

There have been a number of changes made to single audits over the past few years. One of the more important 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 mostly significant federal educational awards. Many Massachusetts municipalities of similar size to the Town are focusing their efforts on material provided by MASBO, including policies and procedures templates. We suggest the School Business Office begin reviewing this.

Leases and a new SEC requirement

The Securities and Exchange Commission has approved two amendments to Rule 15c2-12. The amendments govern continuing disclosure requirements for issuers who are currently subject to Rule 15c2-12 with respect to annual disclosures and filings.

Due to these changes, effective February 27, 2019 any (1) “material” loan issued through the Department of Revenue (i.e. State House Notes), or (2) “material” leases issued or loans completed with the Massachusetts Clean Water Trust, MWRA, or USDA will require a disclosure to be filed no later than ten business days after the occurrence of the event.

In order to mitigate the consequences of a violation of these regulations, we suggest the following:

1. Send an email to all department heads asking them to report any possible leases (ambulances, fire apparatus, vehicles, technology, public works equipment, etc.) that may be entered into.
2. Call your financial advisor, and together make a determination if the financial obligation is material enough to require a disclosure.

III. FINDINGS AND RECOMMENDATIONS

Prior Year Items Resolved

We are pleased to report that issues associated with the following areas have all been resolved:

1. Maximizing investment returns
2. Properly reporting abatements.
3. Departmental turnover accuracy.
4. Compensated absences – both School and Town.
5. Town Clerk improvements – work in progress due to new Town Clerk being appointed.
6. Community Development Single Audit issues.

Payroll Audit

In the current year, a new audit procedure was cycled in to review payroll files for completeness. Based on our procedures, for 20 items tested, we discovered one missing W4 and one missing I9 form. This is not significant however it may make sense for the Town to implement its own internal audit procedure of reviewing personnel files for completeness on an annual basis, since our process was only based on random samples.

MUNIS

The Town's operating system has never completely worked as intended. This was due to many annual updates being missed several years ago that caused linkage errors. These issues were partly at fault for many of the circumstances involved that caused the Town's financial crisis back in 2013 and 2014. More specifically, determining what the Town's balances were in particular funds was a very challenging process due to carryover balances moving into new fiscal years incorrectly causing the School Department to overspend funds.

In order to work with this, the Town Accountant at the time created work arounds; essentially EXCEL bridges that were used to record activity that would summarize what a balance was in a particular fund. This worked as long as the user was familiar with the work around. However, when the Town Accountant who created the work arounds retired in 2013 the new Town Accountant was unable to replicate her process, and this led to many errors. Since then, three Town Accountants have held the seat and the work around schedules continue to be used.

We understand that correcting this issue in MUNIS could be very costly. We also understand that the current Town Accountant works very well with the work around spreadsheets and is able to close the books efficiently. If the Town continues to use the work around schedules, we suggest that these are shared with ALL users of the system so that everyone is working with the same information, thus facilitating an efficient reconciliation.

School Department

The operating and compliance challenges faced by the schools have been well documented over the past six years. Material weaknesses, significant deficiencies and other findings can

be reviewed in prior management letters, single audit reports and the End of Year School Report audits.

The accumulation of these prior year issues has proven to be a very challenging task for the new Superintendent of Schools who just took over this past year. This, especially in light of the School Business Officer tendering his resignation prior to the close of the fiscal year. The lack of clear and concise documentation as a result of this resignation led to other issues highlighted as follows:

Budget management (significant deficiency)

1. The Murdock Gift Fund closed the year with a fund balance of \$227,000. This fund is home to educational gifts received from one of the Town's largest benefactors. Specific spending requirements are attached to these gift receipts that were not met. Under these guidelines, the entire amount was due back if not spent or obligated by the end of the fiscal year.
2. School Budget – Approximately \$300,000 remained as unspent or obligated at the end of the fiscal year. The School was unaware of this until the books were closed at year-end. Situations such as this can cause a school to miss its net school spending requirements. This should be monitored closely.
3. The Circuit Breaker fund represents additional monies received from the State to assist with any school spending needs. The requirement of this fund allows the Town to carry over an amount equal to the revenues received for the year. At year-end there was approximately \$120,000 over the legal limit which had to be returned to the general fund at year-end. The Town was able to repurpose this back to the School at the Fall Town Meeting.

Grant management (significant deficiency)

1. The Final Financial Reports were not filed timely with DESE for the 6th consecutive year.
2. Many fiscal year 2018 and 2019 grants were still open and unresolved during the audit.
3. Reconciliation processes were still in need of significant improvements during the fiscal year.
4. Drawdown requests for funds were not consistent.
5. A project to clean up grants dating back to 2014 was still ongoing.
6. The School did not set up internal ledgers as recommended in prior years; as a result, it continues try to use the MUNIS general ledger which as we discussed is a very challenging process.
7. Single Audit procedures have not been 100% completed due to the lack of final reports and reconciliation. The above findings are highlighted based on procedures to date and anticipated results. More findings and observations may surface as a result of the completion of that audit. These results will be made available in the Single Audit report and we urge to review this report once it is complete.

End of Year Report

The Town used a consultant who works for a neighboring district to oversee the EOYR filing and this report was filed on time for the first time since 2012. This is simply a band aid for fiscal 2019 as there is no process in place to assure that this is completed timely in the future.

We have not completed audit procedures on this report as of this writing because the State has not finalized its compliance supplement. We expect to complete this audit in January/February time frame and will report the results at that time.

Other

The following items continue to be identified as general findings:

- The two elementary schools do not have current schoolwide plans to comply with the Title I requirements. The prior year management letter provides a template to address this issue.
- New Single Audit guidelines effective 2016 require the School to implement an internal control framework such as COSO or the Green Book. This has yet to be addressed.
- The School does not use its time and attendance module to its fullest potential. This results in some duplication of efforts as any payroll exceptions are entered by the Accounting Office.

Conclusion

The School has had four superintendents and five school business managers over the past decade and the position is currently vacant. This constant turnover has contributed to the School's inability to place in service a sound set of financial policies and procedures. This has resulted in the inefficiency, accuracy and timeliness of financial processing and reporting as highlighted above.

In the meantime, the new Superintendent has taken on many roles including that of the School Business Manager until such a position is appointed. Progress is being made with the help of the Town's Accounting Office. It is our understanding that the MUNIS work around is now being shared with the Schools Business Office, reconciliation procedures between the Town and the School have been improved, and the majority of the reconciliation project to clean up old grants dating back to 2014 is nearing its conclusion. It is important that this positive momentum is maintained into fiscal 2020 and that these results will be observed in the fiscal year 2020 audit.

In addition, the School has advertised for a new School Business Manager. The ideal candidate should have significant experience in the area of school financial management, budgets, grants, end of year report processing and MUNIS. Appointing an individual with very little overlapping experience and expecting the individual to learn on the job would be a major mistake.