

**ROSELLI, CLARK & ASSOCIATES**  
Certified Public Accountants

**TOWN OF WINCHENDON, MASSACHUSETTS**

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Year Ended June 30, 2018



**TOWN OF WINCHENDON, MASSACHUSETTS**

**MANAGEMENT LETTER  
YEAR ENDED JUNE 30, 2017**

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**ROSELLI, CLARK & ASSOCIATES**  
CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park  
Suite 4900  
Woburn, MA 01801  
Telephone: (781) 933-0073  
[www.roselliclark.com](http://www.roselliclark.com)

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, 2018, 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*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
December 3, 2018

## **I. OVERVIEW**

The Town continues to operate under a bill (the deficit legislation) approved by the Massachusetts State legislature in January 2015. The bill provided the Town cash relief in the form of deficit borrowing. This was necessary as a result of the financial crisis the Town experienced in fiscal years 2013 through 2015 that caused aggregate deficits of over \$3.5 million. Under this legislation, the Town was allowed to borrow this amount with the requirement that it must be paid back within 10 years, with early payoffs permissible based largely in part on the Town's operating results. The deficit legislation carried with it many covenants that the Town must adhere to. The Town began making payments on this obligation during fiscal year 2016 and as of June 30, 2018 the Town had paid down \$1.9 million of this issuance. In addition, positive operating results during 2018 will allow the Town to pay down the remaining \$0.6 million on March 1, 2019 six years ahead of the scheduled maturity date.

We have highlighted this achievement on a number of occasions and are pleased with the efforts that the new management team brought to the table. They have been highly successful in that regard and we encourage this continued effort.

Fiscal 2019 will bring some new challenges for the Town. The previous Superintendent who was appointed in fiscal year 2015 retired and a new Superintendent has been appointed effective fiscal 2019. In addition, the Town Accountant has left to pursue other opportunities and the Assistant Town Accountant was promoted to this position. These are two very important positions that served critical roles in the turnaround; it is important that these new individuals continue the efforts as they become part of the new Management Team.

In the prior year, we also highlighted the need for the School Department to address findings that have existed since prior 2014. These have not been addressed adequately and continue to be reported as findings in the current year. Under the guidance of the new Superintendent, we urge that efforts are increased to resolve these issues.

In addition, the Town was the recipient of significant Community Development Funds. A recent audit of this activity combined with our Single Audit, highlighted many instances of mismanagement regarding this activity. The Town had hired outside advisors to administer this activity for the Town and this was not met with success. This may cost future funding of grants in this area. We urge the Town to address this and devise a new game plan for the management of these funds.

On another note, this is the second year that a critical part of the audit was spent in the department levels; we reviewed the financial activities of both the Town Clerk and the School Lunch Office. Overall, we were pleased with the operations of these departments and believe they are being managed at an adequate level. As part of our procedures we highlighted areas that could be improved and have included those in this report.

We expect the Town, with the assistance of its Audit Committee, will continue to address the remaining outstanding items and establish a game plan to address these in an efficient manner.

## **II. FINDINGS AND RECOMMENDATIONS**

### ***Maximizing Investment Returns***

Over the past ten years, the interest earned on bank deposits have not kept pace with inflation. Many bank depository accounts currently return less than 1%. However, there are a growing number of banks and financial institutions like the Massachusetts Municipal Depository Trust, or MMDT, that are financially stable and offer very liquid short-term investments with annual interest rates greater than 2%.

In fiscal year 2018, the Town's general fund reported interest income of about \$20,000. A review of the Town's bank deposits at June 30, 2018 reveals that virtually all of its deposits are in accounts bearing interest at 0.0% to 0.5%; with the lone outlier a bank account at Unibank with over \$3 million earning interest 0.65%.

The Town does a great job with its trust and stabilization accounts by having those professionally managed however the remaining \$7 million in cash should be used as income generating assets.

We recommend that the Town Treasurer evaluate the Town's depository balances and accounts and evaluate the possible benefits of reallocating portions of the Town's excess funds to stable financial institutions that offer very liquid safe short-term investments.

### ***Abatelements***

Currently, abatements are communicated solely to the Collector's Office for processing to the billing system. The Town Accountant is not made part of this process until the Collector reconciles receivables with the office at the end of the month. This is a poor control as it allows the Collector's Office to manipulate the billing system prior to the Town Accountant reviewing the activity.

We recommend that the abatement information is sent to both the Collector's Office and the Town Accountant's Office. This will allow the Town Accountant to provide an independent check on the Collector's activity.

### ***Departmental Turnovers***

We reviewed 25 departmental turnovers of the building department. In one instance, the amount of the permit did not agree to the amount of the turnover. It was off \$20. Further review determined this was a typo and we consider this to be an isolated incidence.

### ***Compensated Absences (update from prior year)***

The efforts undertaken during 2018 with respect to the long-standing issue of compensated absences have finally been resolved. Both the Town (which has been resolved for 2 years) and the Schools were able to provide up to date accrued sick and vacation information. This was thanks to the efforts of the Assistant Town Accountant who was placed in charge of payroll in fiscal 2018. The School final calculation resulted in a \$400,000 adjustment over the prior year.

### ***School Department***

The School Department has struggled to resolve findings dating back many years. A new School Business Manager was appointed effective July 2016. As has been well documented in prior years, this individual was not experienced, and has basically been on-job training since then. As a result, a number of the findings have remained unresolved, especially in the grants area where reports continue to be tardy and general ledger balances continue to be left unreconciled.

With the help of the Town Accountant's Office and the reassignment of certain duties the following areas were resolved that existed in the prior year:

- Compensated absences as previously discussed was placed in charge of the Assistant Town Accountant. This has been adequately resolved.
- Ineligible payroll costs; since School payroll was reassigned to the Town Accountant's Office, these costs have been more accurately recorded.
- The practice of charging all School expenditures to the budget during the year and then creating journal entries into the grant accounts at the end of the year has been abolished.

The following items continue to be identified as **significant deficiencies**:

- Timely filing of grant reports; for the fifth straight year reports have not been filed timely.
- Grant reconciliation process; no progress has been made in reconciling grants. We provided the School/Town with a comprehensive spreadsheet to assist in the process. We also understood as part of the School's plan that an industry specialist would come in to assist the School Business Manager resolve this issue. The main part of the problem is the School does not maintain separate internal ledgers and relies on the general ledger. This is an inherent problem as the general ledger is not set up to record grants in the manner required under the Single Audit Act.

We understand the Department of Education is in trying to resolve this matter with the School Business Office, but it has yet to be resolved. There is a possibility that a significant amount of funds may need to be returned to the Commonwealth if this is not resolved shortly.

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.

As for findings related to the End of Year Report, the report has not been completed as of the date of this report and thus we are unable to comment on its status at this time.

As previously discussed, the Superintendent retired at the end of fiscal 2018 and a new Superintendent has been appointed effective fiscal 2019. We expect this new Superintendent to provide the motivation, desire and intent to resolve all the issues identified above.

### ***Community Development Block Grant***

During fiscal year 2018 the Town received almost \$800,000 as part of its allotment for its 2016 Community Development Block grant award. This qualified the Community Development Block Grant as a major grant requiring audit under the Single Audit.

The Town elected to engage the Montachusett Regional Planning Commission (MRPC) to administer the activities of the grant rather than hire staff on a temporary basis.

During the fiscal year the activities were also audited by DHCD, the cognizant agency for the Federal Government relative to CDBG grants. Their procedures revealed a process that was mismanaged to the point it could be considered reckless. A very harsh report was issued by DHCD as a result. (We refer you to the DHCD report for further details on their findings in addition to those we highlight in this report.) It is not clear if the Town's future funding is at risk as a result of this process.

The findings are summarized in the table on the following page. Four of these have been identified as material weaknesses and one identified as a significant deficiency, in addition to one compliance finding. Please refer to the report on internal control and the single audit for further guidance in that regard.

One particular item that deserves highlighted attention is related to the bidding process for a project that was completed during fiscal 2018:

1. On March 20, 2017 the MRPC put out a bid notice for an approximate \$40,000 project on Brown Street.
2. The bid deadline was stipulated as March 31, 2017 at 3PM.
3. Four bidders responded with bids ranging from \$34,725 to \$48,600.
4. All four bidders were written into the bid log as having submitted their bids on March 31, 2017.
5. However, closer inspection indicated one bidder's bid was stamped received on April 3, 2017.
6. The bids were opened on April 4, 2017 instead of March 31, 2017.
7. This same bidder who turned in the late bid was also the low bid and was awarded the contract.

On the surface it appears that bidding laws have been violated. The Town discussed this with the vendor and MRPC. They have all asserted that the bids were all received on the same day, but the records were a result of sloppy recordkeeping. In light of the major issues that are highlighted on the following page, it is reasonable to assume that this was a collateral impact of the serious deficiencies discussed.

<u>Finding</u>	<u>Description</u>	<u>Summary of Issues</u>
2018-001	Internal Control - Material Weakness - Lack of Oversight	<ol style="list-style-type: none"> <li>1. Submitted a management plan that wasn't followed</li> <li>2. MRPS Planning and Director of Development did not provide oversight of the Community Development Manager This led to improper payments, recordkeeping deficiencies and other material grant findings</li> </ol>
2018-002	Internal Control - Material Weakness - Recordkeeping	<ol style="list-style-type: none"> <li>1. Multiple copies of same document in files</li> <li>2. Two environmental review checklists were maintained in several files instead of one</li> <li>3. Many types of documents were not signed and dated These included initial inspections, work write-ups, date on homeowners agreements</li> <li>4. Invoices not detailed, lack of invoice approval process, inconsistent homeowner signoffs</li> <li>5. Files missing insurance binder for 2 of 4 tested</li> <li>6. Procurements not opened on date due on all 4 files tested</li> <li>7. Two procurement files had bid that was stamped after due date; including one winning bid</li> <li>8. One procurement file had no documentation of when bids were received</li> <li>9. Debarment checks were dated on 5/4/18 after projects had begun</li> <li>10. Missing contractor's statement of completion on all 4 files tested</li> <li>11. Scope of work not attached to Home Repair Agreement on all 4 files tested</li> <li>12. Environmental checklists dated after work began for 3 of 4 files tested</li> </ol>
2018-003	Internal Control and Compliance - Material Weakness - Improper Payments	<ol style="list-style-type: none"> <li>1. Checks processed through Town warrant for work not performed - misrepresented financial results for the purpose of meeting spending timelines to be able to apply for a future grant</li> <li>2. A \$30,000 invoice dated 2/1/18 but payment request was dated 5/17/18. Invoice was processed on a Town warrant and entered into DHCD before work was performed</li> <li>3. A \$8,600 invoice dated 2/15/18 but payment request was dated 4/6/18. Invoice was processed on a Town warrant and entered into DHCD before work was performed</li> <li>4. An invoice for final payment on a project was dated 9/26/17 before \$3,000 of electrical work was completed. The request for payment was signed and dated on 9/22/17 but the electrical permit was not issued until 10/4/17 and signed off by the inspector until 10/16/17.</li> </ol>
2018-004	Internal Control and Compliance - Material Weakness - Debarment checks	<ol style="list-style-type: none"> <li>1. There was no proof of a debarment check for the winning bidder of a \$325,068 road reconstruction project.</li> <li>2. A rehabilitation file was missing debarment check for contractor</li> </ol>
2018-005	Internal Control and Compliance - Significant Deficiency - Rehabilitation Inspections	<ol style="list-style-type: none"> <li>1. Inspection reports were not detailed and many were lacking signoffs</li> <li>2. Cost estimate for failed septic system not prepared by individual experienced with such systems</li> </ol>
2018-006	Compliance Finding - Late Reporting	<ol style="list-style-type: none"> <li>1. Late quarterly report filing to DHCD for 3/31/18. Final corrected report was filed in June.</li> </ol>

#### **IV. DEPARTMENTAL REVIEWS**

##### **A. School Lunch Program**

###### **Introduction**

The Winchendon School Lunch Program is operated under MGL Chapter 71 Section 72. This statute of the general laws of Massachusetts allows the School Committee to prepare and sell lunches (or delegate such service) at one or more school buildings for the pupils and teachers of the public schools at such prices as it deems reasonable.

The School Lunch Program in Winchendon is managed by the Chartwell Group Schools Division “Chartwells”. Services are provided for a flat fee plus actual costs of operating the program. These are billed monthly and processed through the School Business Office.

Currently Chartwell provides a food service director, 7 cashiers; 2 at each elementary school and 3 at the Middle/High School; a cafeteria manager at each location and 6 employees in the kitchens.

The School Lunch Program is funded from user charges (cash, checks and online payments) and Federal/State grant reimbursements. The following table summarizes the revenue sources for each of the last two fiscal years:

	2017	2018
User Fees	135,405	150,449
Federal Income	349,125	480,261
State Income	8,087	11,172
Interest Income	630	509
	<u>493,247</u>	<u>642,391</u>

The large surge in revenues was primarily responsible for erasing a deficit of about \$23,000 in the prior year. Per our discussion with the Food Service Director many program changes led to the increase in revenues; these included:

1. Adding an “in the classroom breakfast program”. This was free to participants and the costs were fully reimbursable from the Federal Government.
2. Adding an “after school supper program”. This was also free to participants and the costs were fully reimbursable from the Federal Government.
3. A whole grain waiver was received from the State which allowed the cafeteria to serve a more normal food variety thus also increasing participation.
4. The increased participation provided more revenue to spread out against fixed costs (payroll) and resulted in positive operating results.

We are encouraged by these changes and the positive impact they have had on the overall financial strength of the program and continue to endorse the aggressive monitoring of the fund. The remainder of this review focuses on the cash handling aspects of the program; both the strengths and weaknesses in the overall control environment.

## **Controls**

1. A policy and procedure process for cash receipts exists, is formalized, and is in place.
2. All cash handlers are bonded through Chartwells.
3. Cashiers are required to balance their drawers daily at the end of their shift. The total cash is balanced to a register tape and reviewed by the Manager.
4. A report is also run from the School Lunch Office which tallies the total revenues for the day from each register.
5. The School Lunch Secretary drives to each school in the afternoon and collects the cash/checks and register tapes from each school and signs off that the cash/checks were collected.
6. Back at the School Lunch Office the cash/checks collected are balanced to the report run from the system. Once balanced it is signed off. Small variances over/under are common but not significant.
7. Cash/checks are deposited at the local bank daily.
8. The School Lunch Secretary maintains an Excel schedule of all cash and checks received at the registers.
9. The Excel schedule is submitted to the Treasurer monthly; upon receipt the Treasurer agrees each days' deposits to the bank statement.
10. Chartwells maintains full GAAP accounting of the operation, recording inventory, sales, cost of sales, cash collections, prepaids etc. (Note: this is not consistent with the way the Town accounts for the fund as the Town uses modified cash basis; however, it is very useful for analysis purpose in assessing results of the program).
11. In instances when students forget their money an IOU is issued. The School Lunch Secretary follows up on these aggressively. Emails, phone calls and notes home are all used as a means to collect. Total IOUs which were about \$6,000 three or four years ago amount to \$465 currently.
12. Inventory control is strong:
  - a. Dry goods, freezer and refrigerated areas have limited access.
  - b. Dry goods are behind closed doors.
  - c. Cold storage is padlocked.
  - d. Managers sign-off on all goods that are received; and these are reviewed prior to disbursement.
  - e. Inventory counts are taken at the end of each month and reviewed analytically.
  - f. Cost of inventory is compared to sales to provide cost of sales analysis.

## **Observations**

1. The policy and procedure manual require each school to have a secure safe. Both Toy Town and Memorial Elementary do not have secure safes. The register cash and undeposited funds are kept in a locked room instead. Each school should purchase a safe or the policy should be amended. Currently the School Lunch Secretary attempts to make deposits every day but this does not happen all the time, however the amount of cash on hand at any one time is usually not significant.

- We completed the reconciliation for the school and it can be reviewed below:

Variance	a.	76,534.42	b.	(185.00)
	a.	variance is due to School records not including ACH for web payments		
	b.	variance is due to various minor timing issues related to redeposit of bad checks net of charges.		

We believe the School Lunch Program would benefit if it generated revenue reports from its on-line payment program and included these on-line payments as a separate column in the Excel spreadsheet. This would provide a more accurate means of reconciling the school prepared Excel spreadsheet to both the Treasurer's records and the general ledger.

- Town of Winchendon, Massachusetts* *Page 9 of 12* *Management Letter*

the Town Accountant. This is done because the School spreadsheet is incomplete with respect to the on-line payments.

Since the Treasurer is the custodian and authorized signer of the bank account, it is not a proper control for the Treasurer to also prepare the turnover as the duties would be incompatible. As we suggested in the previous comment, the School Lunch Secretary should learn to access revenue amounts from the on-line payment program and add these to the Excel spreadsheet and then use the Excel spreadsheet as a means by which to prepare the turnover form. In doing so it brings more independence and accountability to the process.

5. The Excel spreadsheet prepared by the School Lunch Secretary includes a column for vending machines. Total revenue recorded for the year was \$81. We were informed that the vending machine is seldom used as the same drinks are available in the cafeteria however, we also understand that the same person who empties the cash also refills the vending machine. These duties should be separate as the individual who refills the vending machine should count the refills and balance this to the cash removed from the machine by a different individual.
6. The Cafeteria bank account maintained by the Treasurer is allowed to accumulate funds for the entire year and is only trued up once at the end of the year. As a result, in fiscal 2018 the amount was allowed to reach \$213,341 before a transfer was made to the general depository of \$150,000. Given that the account is interest bearing, the inflated funds end up generating additional interest for the Cafeteria account. Because the interest rate environment has been very low, the impact has often been immaterial, however interest rates have started to creep-up, so it makes sense to do a true up more frequently. The easiest way to do this is for the Treasurer to adjust the bank balance to the general ledger balance monthly. In doing so the true balance is generating interest.
7. The Chartwells group is compensated a flat fee for the management of the school lunch program as well as actual costs of operations. The calculation is generated by the School Lunch Director who is a Chartwells' employee. Actual invoices and payroll are paid by Chartwells and then added to the flat fee. All supporting back up to the calculation is maintained by the School Lunch Director for audit upon request. We asked if the School Business Office had ever audited a Chartwell bill and he indicated this has never been completed in 3 years. Essentially, the bill is paid on a rubber stamp approval.

We suggest that an individual from the School Business Office spot check audit Chartwell bills by reviewing all supporting back up and do this at least quarterly.

## **B. Town Clerk**

### **Introduction**

The Town Clerk is responsible for the administration of numerous licensing and permitting activities for the Town. These include dog licenses, marriage certificates, marriage intentions, death certificates, birth certificates, business certificates and many more. Revenues on an annual basis are about \$50,000 and consists of numerous small items ranging mostly from \$10 - \$25. A number of transactions are completed in cash; and thus, it is critical that internal controls are in place to reduce the risk of misappropriation or error.

The Department is administered by a Town Clerk who is appointed by the Town Manager and also includes an Assistant Town Clerk. All individuals interviewed were helpful and seemed engaged in their duties.

We believe the activities in this department are run very well by a Clerk that has 35 years of experience in the office and unlike many other Town Clerk operations we have reviewed throughout the Commonwealth, the office has completed many modern updates to the overall administration that have made the process much more efficient and accurate.

These include the following:

1. Electronic preprogrammed cash register. Keys are preprogrammed to ring in type of sale and records the amounts of each type of sale daily.
2. Register tapes are transmitted to an Excel spreadsheet monthly and sales are tracked by type and by date.
3. Patrons of the office may pay on-line through Unibank. This has greatly reduced the amount of traffic and cash received in the office.
4. The largest revenue source which is dog licenses is backboned by a software provided by LL Data Designs. Employees in the office can key in important information and this is used to register dogs, collect revenues and track down delinquents.
5. Rabies certificates received in the office from veterinarians are used to promptly register dogs into the system.
6. The system tracks the dog license number and status.
7. Delinquent dog owners are reported to animal control who issues fines and acquire impounding rights if dog owners don't comply.
8. This has resulted in the Town Clerk tracking very closely to the maximum probable dogs in Town. More specifically, studies show that the total dogs in a particular community is typically 20% of the total population. Therefore, it is expected that the Town Clerk should be tracking about 2,000 dogs (10,000 x 20%). In other communities we have reviewed, this number is usually less than 5% so many dogs are untracked. In Winchendon the Clerk tracks 1,620 (16.2%) dogs which is a very high rate.

Overall, we are very pleased with the process and encourage the Town Clerk to continue to educate the Assistant Town Clerk as we understand she is nearing retirement. As with any department we review, there are always areas of improvement and thus we do have some observations to communicate as a result of our procedures.

### **Observations**

1. The LL Data Designs program allows the Town Clerk to sort dog licenses for the year between male, female, neutered, spayed. Dogs that are not fixed are \$12 and dogs that are fixed are \$10. By having this information, it allows the Town Clerk to periodically check licenses issued versus money collected for those licenses

We helped the Town Clerk through this process and determined that 230 dogs were registered and not fixed, and 1,237 were registered and fixed. Based on our calculation this should have resulted in \$16,970 in dog license revenue.

The Town Clerk's spreadsheet reflected \$19,281 so this varied by \$2,311. Since the variance was positive it was not overly concerning and since this was the first time through the exercise, we expected some kinks. However, if this is done periodically, it would allow the Town Clerk to identify where the variances occurred. It could be timing of the two systems, additional charges such as new tags, on-line fees charged to the dog owner, or human error in classifying revenue at the register.

We recommend that this reconciliation process is placed in service for future periods.

2. The Excel based schedule maintained by the Town Clerk is an excellent form of internal recordkeeping, yet this schedule is never reconciled to the Town Accountant's general ledger.

We reviewed certain of the revenues on the spreadsheet and reviewed the corresponding accounts in the general ledger and found the balances to vary by minor amounts probably due to timing. This effort took about 15 minutes. We suggest this reconciliation process is introduced into the year-end closing process for the Department.

3. Office security issues were discussed that have been addressed and corrected as of this writing; specifics are not available for public dissemination.