

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF WINCHENDON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2021



TOWN OF WINCHENDON, MASSACHUSETTS

**MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2021**

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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, 2021, 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
February 16, 2022

I. OVERVIEW

The Town continued to respond well to the financial challenges presented by the COVID-19 pandemic that began during fiscal year 2020. Despite lockdowns, social distancing measures, mask mandates and the State not passing its budget until well into fiscal 2021, the Town was able to complete a positive year of operations and increase or maintain reserves at all levels.

Key financial highlights:

1. Unassigned fund balance ended at about \$3.6 million.
2. Stabilization funds increased to \$1.2 million (A subset of the unassigned fund balance).
3. Balanced budget for fiscal 2022.
4. ARPA allotment \$3.3 million.

The Town is also navigating through some turnover at key positions which include:

1. Town Manager
2. Treasurer/Collector
3. Superintendent

The transition is evolving well but as with any transition, there were hiccups in the process that are discussed further in the report that are beginning to resolve themselves. Overall, its been successful thus far.

The remainder of this letter addresses items of interest that we are communicating to the Town in the form of “Informational Items”; (these are not considered findings) and a section labeled “Findings and Recommendations”, which are our observations in areas that the Town is encouraged to devote attention to. Improvements in these areas are recommended in an effort to improve internal control and efficiency.

II. INFORMATIONAL ITEMS

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. The Town recently completed a network security assessment, and this can be used as a tool to improve or strengthen the current system.

Long-term obligations (repeated)

An important area that the Town needs to address is its management of long-term liabilities. 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 past decade, 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 \$22.5 million and the OPEB liability at about \$23.3 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, the current funding ratio is one of the lowest in the entire Commonwealth at about 50% as compared to the State average of 65%. This means the Town can expect accelerated pension assessments within the next five years.

In addition, there is currently no funding process in place for the OPEB liability and the Town has accumulated only about \$12,000 since this disclosure was required in 2008.

We suggest the Town begin to think about the following strategic positions in addressing this issue:

- Create a committee specifically designed to make decisions relative to its long-term liabilities.
- Create a pension stabilization fund. Accumulating amounts in such a fund will allow the Town to draw down on this fund in a ratable manner when its pension assessment begins to spike.
- Begin to make annual contributions to its OPEB trust fund.

Given the Town has put some very challenging financial issue behind it, now is the time to begin to more aggressively address these issues.

III. OBSERVATIONS

Cash Reconciliation

1. The vendor bank account reconciliation lists a number of over and under funded items. These are not resolved timely and serve to clutter the reconciliation process. The net of these items is about \$8,000 but there are large positives and negatives. It is very important that these are resolved every month. If they are not corrected, they tend to become numerous and are very difficult to understand. We suggest the Treasurer work with the bank to resolve these items and set up a process of clearing these out monthly.
2. We observed on the year-end bank statements that unrealized gains of about \$96,000 were not recorded at year-end and handled as a reconciling item. These are required to be reported for generally accepted accounting principles (GAAP) under GASB 31, and further, in 2009 the Division of Local Services adopted the provisions of GASB 31 for State reporting purposes. The Treasurer should create a process whereby these unrealized investment gains and losses are reported at year-end.

Compensated Absences

Part of the year-end GAAP reporting process requires the recording of vacation and sick accrual liabilities. We received the appropriate documentation from the Town, however the School department was unable to provide us with a complete and accurate reporting of these liabilities, so the prior year balances had to be rolled forward instead and these are most likely inaccurate. It is important that the year-end sick and accrual balances are part of the audit checklist and provided as soon as possible after year-end.

Tax Title (repeated)

The Collector currently maintains 13 parcels of taxes that are unidentified and have been in this condition for several years. Discussions with the prior Collector concluded that she is aware of this situation and when attempting to address this legally, cost was an issue so this was not resolved. The older uncollected balances related to these parcels are currently in tax title. We suggest the new Collector familiarize herself with these parcels and determine what steps to take to address this situation.

Payroll Audit (repeated)

In fiscal 2019, we completed a more thorough process of the payroll files to address their completeness. Per this review we discovered that in our sample of 20, certain forms were not always included in the files. Since our process was on a sample basis only, we recommended that the Town conduct a complete review of all its personnel files to determine if all proper forms are included in the files. *This review has yet to be completed and we once again urge the Town to complete this process.*

School Department Single Audit

The operating and compliance challenges faced by the schools have been well documented over the past several 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 School department has worked very diligently to address these issues and has been making significant progress with these findings over the last 2 or 3 years but findings remain which are categorized as significant deficiencies under the Uniform Guidance guidelines as follows;

- Two final reports due during the fiscal year were submitted beyond the 90-day submission deadline for submitting final financial reports.
- Time and effort certifications were not maintained for grant employees' whose salaries and wages were not supported by detailed time records.
- Invoices were charged for services performed prior to the approval date by the pass-through agency, thus they were charged outside the period of performance and resulted in questioned costs of about \$64,000.

Capital Assets (repeated)

Currently, the Town provides us with new capital additions each year and we include these in the fixed asset inventory we maintain for the Town. This inventory has not been updated for disposals in many years and as a result is most likely not accurate at the present time. We suggest the Town Accountant review files we can provide her office and make sure these inventories are accurate by working with the department heads and verifying their inventories.