

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF WINCHENDON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2020



TOWN OF WINCHENDON, MASSACHUSETTS

**MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2020**

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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, 2020, 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.

RoselliClark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
January 25, 2021

I. OVERVIEW

Fiscal 2020 will always be remembered for what is arguably, one of, if not, the beginning of one of the Nation's most daunting historical challenges. In January 2020, a virus known as Covid-19, made its appearance in the United States. Within two months, it's devastating impact was being experienced on a large-scale basis and became a pandemic. In order to mitigate the wide-spread impacts, the entire Nation came to a virtual stand-still as schools, colleges, and non-essential businesses and activities were all shut down and citizens were required to stay in their homes.

Because the resultant unemployment skyrocketed to levels never seen before, it had, and continues to have a dramatic impact on the world economy; This impact has been felt at the Global, National and Local level.

While the Town could never prepare itself to face such an unprecedented challenge, recent years of strong fiscal management set up the Town to withstand this situation, better than most. Despite the economy being locked down for basically the entire fourth quarter, the Town was still able to ride the back of a strong first half of the year and end the year with positive operations and balance a budget for fiscal 2021.

The following are some key financial highlights:

1. Unassigned fund balance increased to nearly \$3.5 million (over 10% of general fund expenditures).
2. Stabilization funds increased to almost \$1.2 million.
3. Controls continued to improve.
4. The deficit debt (which was paid off) is clearly in the rearview mirror and the Town has survived this incredibly challenging five-year period.

In addition, the strong financial position will leverage the Town's efforts to mitigate the economic impacts of Covid-19 into fiscal 2021 and beyond.

The new challenge for the Town is to continue this momentum as it hits a period of significant turn-over at key positions:

- The Town Manager who was instrumental to the Town's turnaround efforts recently left for another opportunity.
- The School Superintendent will be retired before fiscal 2022 begins.
- The Town Treasurer retired.
- The School Business Manager has yet to be replaced and the School is using interim consultants to fill this void.

It is important that the Town address these transitions promptly and efficiently. While the School Committee has appointed an interim Superintendent with a school business background, it is still important to monitor all these transitions closely.

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

We continue to 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

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 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 \$22.5 million and the OPEB liability at about \$31.1 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 47%. 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

Tax Title

The Collector currently maintains 13 parcels of taxes that are unidentified and have been in this condition for several years. Recent discussions with the 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.

We would also like to take this opportunity to address tax title in general. A number of years ago, the tax title process was not working well in Winchendon. However, this was resolved about 5 years ago and was being administered in an efficient manner. The new Collector needs to understand how important tax title processing is to the Town and the additional revenue it brings in. Momentum in this area needs to continue and the tax title process for 2021 is around the corner. Demand letters need to be sent in May after the last bill has been mailed and due. Timing on the demand letter is critical in order to make sure it is collected prior to June 30, 2021.

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

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.

We are happy to report that the School has worked very diligently to address these issues and has been making significant progress with these findings.

Currently, the following observations remain related to the Education grants and are included in more detail in the Federal Awards' report:

- Two final reports due during the fiscal year were submitted two and eight months after the submission due date for the Title I Grants to Local Educational Agencies and Special Education Cluster grants, respectively.
- Time and effort certifications were not maintained for grant employees' whose salaries and wages were not supported by detailed time records.
- Two vendors were awarded a contract without a competitive procurement process.

The following observations were made relative to the school end of year report and are included in more detail in that report:

- A lease schedule was not provided and therefore not available for the School's leasing arrangements. (This is a new compliance requirement and DESE has indicated this acts more as a reminder for future audits as opposed to a strong finding)
- Tuitions to private schools were entirely allocated to private separate day placements with none to private residential placements.
- Support for riders for special education out-of-district transportation was not provided.

The School used a consultant to complete the end of year report; it was completed timely and accurately. The findings above relate mainly to support that was not available. As previously discussed, the School Committee has appointed a Superintendent with a business background who will take over the oversight of these areas. We also recommend that the School utilize the services of this consultant if this service is available and if the School believes there is a need to leverage the business activities.

Capital Assets

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.