

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF WINCHENDON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2022



TOWN OF WINCHENDON, MASSACHUSETTS

**MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2022**

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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, 2022, 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 did not identify any deficiencies that we have considered significant deficiencies.

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
January 3, 2023

I. OVERVIEW

The Town's operating results continued to improve during fiscal 2022. This has been a consistent theme with the Town since it emerged from the financial collapse it experienced in fiscal 2013/2014. Despite significant turnover at every key administrative and financial position the Town continues to move forward through conservative revenue forecasting and expenditure budgeting.

Key financial highlights:

1. Unassigned fund balance increased to \$3.8 million (12.2% of general fund expenditures)
2. Stabilization funds increased to \$1.3 million (A subset of the unassigned fund balance).
3. Balanced budget for fiscal 2023.
4. ARPA allotment \$3.3 million (received over \$1.1 million to date).

Key challenges:

1. Transition of Treasurer/Collector's Office.
2. Transition of Town Accountant's Office.
3. Transition of School Business Office.

With inflation peaking near 40-year highs, and an aggressive Federal Policy Committee increasing rates at a historic pace, the Town can expect challenges in other areas that it has not faced in many decades:

1. Wage inflation – the ability to maintain quality employees at reasonable wages.
2. Interest rates – the ability to finance capital projects at reasonable financing costs.
3. Construction inflation – the ability to complete capital projects at budgeted costs.
4. Energy inflation – the rising costs of oil, gas and electricity.
5. Goods and services – the supply chain disruptions impacting efficiency and cost of delivery of services.

We urge the Town to monitor these situations very closely and plan accordingly as it sets forth in its fiscal 2024 budget process and capital planning.

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

Investment Income

At year-end, the Town carried over \$11 million in cash and equivalents. Recent actions by the Federal Oversight Market Committee to raise the rate on borrowings significantly have begun to have a similar impact on investment yields. Many short-term instruments are currently approaching 5% yields and are liquid and legal borrowings in Massachusetts.

This comment serves as an alert to the Town that investment strategies not available to the Town in at least 20 years are beginning to present themselves, and could be financially beneficial. Each \$1 million invested could return \$40,000, using an effective safe and liquid strategy. This would be a significant increase over the \$22,000 earned in fiscal 2022.

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 recently 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.

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.

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 \$21.2 million and the OPEB liability at about \$19.5 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 56% as compared to the State average of 65%. This means the Town can expect accelerated pension assessments within the next five years.

With respect to OPEB, the Town has finally begun a funding process by contributing \$50,000 towards the unfunded liability during fiscal 2022. This is a good start to begin to address this liability and we encourage the Town to continue to fund OPEB through a dedicated funding source.

III. OBSERVATIONS

Cash and Bank Reconciliations

1. In the prior years, the outstanding checklist provided for reconciliation was the bank generated outstanding checklist. In the current year it was provided on a Town generated excel spreadsheet. The spreadsheet includes 2 checks totaling over \$50,000, one written in 2009 and a second written in 2017 that were not on the bank provided outstanding checklist in the prior year. In addition, there are 51 checks on the outstanding checklist totaling over \$123,586 that are more than 1 years old.

The Treasurer should research these checks as many appear like they are checks that should have been cashed, written to the Commonwealth of Massachusetts or National Grid or some other entity that most likely would have cashed the check or had it void and replaced. If they are void checks, they should be removed from the list.

For those that are true outstanding checks that are greater than one year old a tailings process should be implemented, and these checks should be advertised in accordance with those rules.

2. 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 \$128,000. 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. We believe the majority of these overfunds offset checks that should not be on the outstanding checklist (see above).
3. We observed on the year-end bank statements that unrealized losses of about \$26,700 were not recorded at year-end and instead 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.

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;

- One final report due during the fiscal year was submitted beyond the 90-day submission deadline for submitting final financial reports.
- 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 \$26,000.

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.