

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF STOW, MASSACHUSETTS

MANAGEMENT LETTER

Year Ended June 30, 2021



TOWN OF STOW, MASSACHUSETTS

MANAGEMENT LETTER

**FOR THE YEAR ENDED
JUNE 30, 2021**

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TRANSMITTAL LETTER

To the Honorable Members of the Select Board
Town of Stow, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Stow, Massachusetts (the "Town"), as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 7, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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.

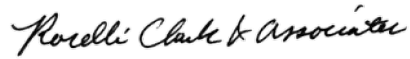
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies that are categorized as a significant deficiency or material weakness however, our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Generally Accepted Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
March 7, 2022

INFORMATIONAL ITEMS

Statement on Auditing Standards No. 115 – Audit Communications

The American Institute of Certified Public Accountants (“AICPA”) several years ago issued Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (“SAS 115”). SAS 115 establishes standards and provides guidance on communicating matters related to an entity’s internal control over financial reporting identified in an audit of financial statements. In particular, SAS 115 provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements in the following order:

1. Control deficiency
2. Significant deficiency
3. Material weakness

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance. We did not report any such findings in this report.

Control deficiencies are not required to be communicated; however, the Town has requested that we also report that type of deficiency in this report in order for the Town to strengthen its internal controls and operating efficiency and for full transparency. These are included under the caption general findings and recommendations.

Network Security

We continue to remind our clients 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.

While the Town appears to have a strong and robust security system in place, we recommend that the Town continue to monitor the changing cybersecurity landscape and maintain its security systems and employee training accordingly.

Fraud Risk Mitigation

Fraud prevention is an area that should be under ongoing evaluation. Evaluating 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. We will discuss this with management annually through our risk assessment procedures to assure that management is monitoring this critical aspect of government.

Through our discussions we have learned that management conducts many of its own internal processes to prevent and detect fraud. Periodically reevaluating departmental cash handling procedures to make sure they are adequate and effective is an ongoing recommendation.

The Town should be aware that our audit procedures are designed to provide reasonable assurance that the financial statements are fairly presented and free of material misstatement. Our audit includes considerations for fraud; however, no assurances can be given that we would detect fraud through our audit. Our audit cannot be relied upon to detect fraud or illegal acts that may exist.

New GASB Pronouncements

The GASB has approved a new pronouncement that will go into effect in fiscal year 2022.

GASB 87 which requires the Town to revise the manner in which it accounts for its operating leases goes into effect in fiscal year 2022. Previously, governmental entities reported their leases similarly to how private entities reported leases under ASC 840. While finance leases would be capitalized on the balance sheet, operating leases would be reported in the footnotes. However, GASB 87 requires that all operating leases now be accounted for as finance leases. As a result, leases previously classified as operating leases will not only be capitalized on the statement of net position, but also be reported differently in the statement of activities.

Long-Term Obligations

Recent accounting standards have brought to light more than ever those hidden liabilities that are true long-term obligations of the Town.

More specifically, OPEB and Pension liabilities are now required under GASBs 67, 68, 74 and 75 to be recorded in the Town's financial statements.

With respect to OPEB, the Town has created a Trust and has been contributing annually towards the unfunded liability. In addition, the Trust returned almost a 27% return in investment income or about \$160,000 during the year due to robust market conditions. Despite this, the unfunded liability sits at \$6.9 million (about 87.5% unfunded), a minor increase over the prior year. This is not unusual as multiple communities across the Commonwealth continue to trail in this area and the Town seems to be a little bit ahead of the curve in that regard. Ultimately there will become a need to adopt a more aggressive contribution policy in future years when the pension becomes fully funded.

With respect to its pension funding, the Town is a member of the Middlesex County Contributory Retirement System (MCCRS) along with numerous other towns and districts. With a 53.4% funding ratio, it is in the bottom tier of pension system funding in the State and well below the State average of 65.6% funding ratio.

In light of Massachusetts General Laws to fully fund this liability no later than 2040 and with a current funding schedule of 2036 the Town can expect to see its pension assessment rise rapidly.

The Town should begin to factor increases as discussed above into its long-term financial plans.

American Rescue Plan Act

Recently, the Town was awarded a significant grant under the American Rescue Plan Act, (ARPA). Because the Town's award is well under the \$10 million annual exemption limit for flexible spending the guidelines supporting this grant allow the Town to spend the funds on essentially any government service.

We are observing few communities using a portion of these funds to balance their budgets as opposed to one-time items such as emergency snow overruns and capital expenditures. Very similar to prudent uses of free cash, we are suggesting that communities use caution when evaluating the use of these funds. Avoiding structural budget deficits by not using non-recurring revenue in its budget process should be strongly considered.

Investment Income

Although interest rates on bank balances are near all-time lows, recent action and near-term future intentions by the Federal Monetary Oversight Committee to raise the rate on borrowing significantly over the next several months also signals that a similar impact on interest income yields is coming. It is important that the Town begin to aggressively monitor market activity relative to investment income and begin to manage yields efficiently once any positive trends are observed.

Uniform Guidance (Single Audit Act)

Given the level of Federal funds anticipated to be received by the Town under ARPA legislation, the Town should begin to plan the timing of spending from these funds by fiscal year. Federal audit guidelines require towns who spend greater than \$750,000 in one fiscal year, to undergo a single audit. Since the Town has not had a single audit in almost 15 years, its current operating system is most likely not adapted to those required under single audit and could result in material weaknesses or significant deficiencies.

Planning expenditures in any one year to be less than \$750,000 and spreading the award over two or three years may be an approach the Town could implement. This would save on control implementation costs and audit costs. However, given other stimulus measures are still being assessed by the Federal legislature, ultimately, a single audit may be unavoidable.

GENERAL FINDINGS AND RECOMMENDATIONS

Stagnant Balances

Special Revenue

In recent years, the Department of Revenue has advocated a process whereby it's a best practice for Towns to review accounts that appear to have gone stale and sit on the book for many years. Many of these accounts become forgotten over the years as individuals in charge of them retire or posting errors occur and are never corrected.

We reviewed the Town's special revenue accounts and determined that 37 accounts that have an aggregate balance of about \$83,000 did not have any activity during the year. These accounts are made up of old donation, gift and grant accounts. We suggest the Town undertake a process of sitting down with the department heads who are in charge of these accounts and determine if a spending plan can be adopted. In the instance where it appears a coding error has occurred, or the grants have been closed out, the funds should be diverted back to the general fund.

Response – With the change in Administration, the Town has been looking through these accounts and making efforts to research and discuss the continued need for funding and to determine which accounts could be closed to the general fund.

Capital Projects

The Town maintains two capital projects accounts with over \$65,000 in aggregate balances that appear stale. Stagnant balances could present arbitrage issues in the instance a bond was issued. Under MGL, the Town can repurpose these balances to similar projects or use up to \$50,000 per year to subsidize debt payments.

Response – The Town will research these accounts and will look to repurpose the balances.

BAN Premiums

The Town maintains two BAN premium accounts recorded in its special revenue accounts that are not included above. These have had no activity and are dated fiscal 2017 and fiscal 2018 and amount to about \$140,000 combined.

Under Chapter 44 Section 20, any premium received upon the sale of bonds or notes, less the cost of preparing, issuing and marketing them, and any accrued interest received upon the delivery of bonds or notes shall be: (i) applied, if so provided in the loan authorization, to the costs of the project being financed by the bonds or notes and to reduce the amount authorized to be borrowed for the project by like amount; or (ii) appropriated for a project for which the city, town or district has authorized a borrowing, or may authorize a borrowing, for an equal or longer period of time than the original loan, including any temporary debt, was issued, thereby reducing the amount of any bonds or notes authorized to be issued for the project by like amount.

Based on this, the Town should investigate the use of these funds for a project it may be contemplating.

Response – The Town has an article on the warrant to allocate these premiums at the 2022 Annual Town Meeting towards a Library Renovation project.

Outstanding Personnel Property Taxes

The Town currently maintains approximately \$100,000 in outstanding personnel property tax balances that date between 2008 and 2017. These are the accounts that are de minimus in nature, belong to transient business owners, or have most likely gone bankrupt or out of business. The only means of collection enforcement is through small claims court or enforced through nonrenewal of business permits.

The Collector's Office can create a schedule and identify the holder of each account. This could then be cross referenced to the Town Clerk's Office where business permits are maintained. In doing so the Town could learn which businesses are still active and either revoke the business permit or not renew the business permit on next renewal.

For those businesses that are not active the Town's only remedy for collection is to use valuable resources and proceed through an inefficient, less than cost effective process of small claims court to try to collect minor balances.

In most situations a request to the Assessors to abate the tax under MGL Chapter 59 Section 71 and we suggest the Collector evaluate this.

Response – There has been significant change over in the Collector's Office over the last several years with unfortunately a number of issues to be rectified. With other matters now resolved, the Town will make these accounts a priority over the next year to clean up the outstanding balances and work with the Assessor's Office to review what could be abated versus collected.

Policy and Procedure Manual

The Town does not have a comprehensive internal control policies and procedures manual relating to the accounting and financial operations of all Town departments. This manual can provide many benefits, including the documentation of procedures for ongoing monitoring purposes, the ability to more easily train new staff in policies and procedures that have been approved by management and the setting of consistent practices for all Town departments.

A comprehensive internal control policies and procedures manual should be developed and approved by the appropriate board or committee. This document should be in sufficient detail to establish clear requirements for day-to-day operations and allow new staff to understand the Town's internal control systems.

Response – The Administration will work with Department Heads to begin compiling policy and procedure manuals for each department.

Compensated Absences

At the time of the audit, the Town did not maintain a listing of compensated absences. This was primarily a result of turnover in the payroll area by an individual who left very little documentation related to compensated absences. This is a very important liability for the Town to monitor, not only from a financial reporting standpoint, but also as a control over the accuracy of the employees' vacation data. We understand that such reports will be completed in the future prior to the audit.

Response – The Town Administrator, along with the Assistant Town Administrator have been working diligently to update the compensated absences for all eligible employees. It is expected that all accruals will be updated and tracked within the payroll system by the end of Fiscal 2022.

Treasurer

The Treasurer's Office currently maintains 30 bank accounts. This is a significant volume of bank accounts for a town the size of Stow. We recommend the Treasurer evaluate the need to maintain all these open bank accounts and consolidate bank accounts where possible.

We also observed that the Treasurer does not receive all bank statements directly, as the Office is not assigned the duty of managing certain Trust accounts. Under MGL, the Treasurer is the custodian of all Town cash; and thus, they should request all bank statements be forwarded to the Office so they can be monitored.

Response – The Town Administrator will work with the Treasurer to consolidate the number of bank accounts they maintain. In addition, we will work with the Trusts to ensure the Treasurer is on their accounts and receiving a copy of the bank statements monthly.