

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF STOW, MASSACHUSETTS

Management Letter

Year Ended June 30, 2022



TOWN OF STOW, MASSACHUSETTS

MANAGEMENT LETTER

**FOR THE YEAR ENDED
JUNE 30, 2022**

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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, 2022 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 21, 2023.

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.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
March 21, 2023

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 (annual reminder)

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 (annual reminder)

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.

Long-Term Obligations (annual update)

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. Despite this, the unfunded liability sits at \$8.2 million (about 89% 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 be 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 61.1% funding ratio, it is in the bottom tier of pension system funding in the State and below the State average of 70% 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.

Investment Income (alert)

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% or more in yields and are liquid and legal borrowings in Massachusetts.

We are happy to report that the Treasurer's Office is taking advantage of these short-term investment opportunities. During fiscal 2023, excess operating funds have been invested in these high yielding securities. The Town should continue to work with its investment advisor in maximizing short-term returns.

GENERAL FINDINGS AND RECOMMENDATIONS

Treasurer (continued from prior year)

The Treasurer's Office currently maintains over 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. The bank reconciliation process was more delayed than usual during fiscal 2022; consolidating bank accounts would help make this closing process more efficient.

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 Treasurer's Office began the process of consolidating bank accounts during fiscal year 2022 and that process continues into fiscal year 2023.

Stagnant Balances (update from prior year)

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 47 accounts that have an aggregate balance of about \$153,000 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: The Town is in the process of spending or closing out the stagnant balances. At least a quarter of them have been closed in FY23 and the departments have been notified to spend, if allowable.

Capital Projects

The Town maintains a capital projects accounts related to an HVAC renovation that has been completed and has about \$58,000 in aggregate balances that appears 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 HVAC capital project was repurposed at the 5/20/23 Annual Town Meeting to the Library Project.

Outstanding Personnel Property Taxes (update from prior year)

Due to the significant turnover in the Collector's Office over the last several years, it has taken some time to address the multiple efficiency issues within the Office.

One such item, relates to over \$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: Addressing delinquent taxes has been an ongoing process since the Collector took office. Thus far, approximately \$27,000 have been abated as uncollectible and approximately \$16,500 has been collected after being rebilled.

Policy and Procedure Manual (continued from prior year)

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.