

**TOWN OF MAYNARD, MASSACHUSETTS**

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2015

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Board of Selectmen  
Town of Maynard  
Maynard, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Maynard, Massachusetts (the "Town"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 8, 2015.

**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 ("internal control") 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.

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, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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 from 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## 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 *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Roselli Clark and Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
December 8, 2015

## I. OVERVIEW

Fiscal year 2015 provided further improvements to the local, national and international economies. According to the U.S. Bureau of Labor Statistics, the Town's June 2015 unemployment rate was 3.9%, which was lower than the unemployment rates of Middlesex County (4.1%) and the Commonwealth of Massachusetts (4.9%). Residential home values continue to improve as the market for new and existing home sales have been robust over the past two years.

The Town ended the year with nearly \$6.7 million in unassigned fund balance in its general fund. This represented over 17.2% of fiscal year 2015 general fund expenditures. In addition, the Town continued to bolster its rainy day funds in fiscal year 2015. The Town's general stabilization and capital stabilization funds increased nearly \$200,000 in the aggregate to nearly \$3.7 million at June 30, 2015 (these are included as part of the unassigned fund balance). In addition, the Town transferred \$420,000 into its newly formed OPEB trust fund in 2015; the OPEB trust fund has in excess of \$650,000 at June 30, 2015.

Furthermore, the Town has enhanced much of its financial management personnel over the past three years and now has a stronger, more cohesive finance team to lead it into the near future.

These measures together with the belief that the Town's moderately sized and demographically favorable tax base have resulted in Moody's Investors Service assigning the Town an Aa3 credit rating, which signifies that the Town's general obligation bonds are of investment grade, high quality and very low credit risk.

As we noted in our two previous letters to management, the Town has a significant number of future obligations that materially affect its cash flows in the coming fiscal years including debt service, pension appropriations and compensated absences payouts. The Town has kept these obligations in mind in setting its annual budgets.

While these future obligations are significant, the Town's ability to raise revenues is limited. Proposition 2 ½ places a number of limits on the taxing ability of the Town including:

- a ceiling on property taxes as 2.5% of the equalized value of all properties, and
- residential real estate property taxes are limited by law to \$25 per \$1,000 in assessed valuation.

The Town's latest approved tax rate for fiscal year 2016 resulted in an available tax levy limit of over \$3.5 million. This is a significant improvement over the available tax levy limit for fiscal years 2015 and 2014, which were \$1.6 million and \$1.9 million, respectively, and provides the Town with needed protection should residential housing prices experience a sharp decline in assessed values.

The remainder of the report reflects informational items and findings and recommendations. In reviewing the previous independent accountant's letter to management, we noted that the Town has taken great strides in remediating previously identified internal control deficiencies and weaknesses. We hope that Management will address comments in this letter to management with the same interest it has addressed comments in the prior year.

## II. INFORMATIONAL ITEMS

### *Effect of Adoption of New Accounting Principle – Pensions*

In fiscal year 2015, the Town and virtually all municipalities in the Commonwealth adopted new pension accounting standards. The new pension accounting standards required, for the first time, that the Town present its portion of the unfunded pension liability owed to its current and former employees in the government-wide financial statements. At June 30, 2015, the net pension liability for the Town was nearly \$11.0 million.

It is important to note that the new pension accounting standards do not affect the underlying regional pension system or its funding schedule. All Massachusetts pension systems are required by Massachusetts general law to be fully funded by June 30, 2040 and based on the current actuarial valuations, the Maynard Contributory Retirement System is expected to be fully funded by June 30, 2032. The Maynard Contributory Retirement System is currently 71.5% funded based on a January 1, 2013 actuarial study, which was rolled forward to December 31, 2014 (the year-end reporting date for the Maynard Contributory Retirement System).

### *New Accounting Principle – OPEB*

The Governmental Accounting Standards Board, or GASB, is in the process of issuing a new pronouncement related to other postemployment benefits, or OPEB, that is substantially similar to the pension standard described above. OPEB typically includes health and welfare plans and other similar benefits provided to Town retirees exclusive of pension benefits. The Town presently contributes 75% of the cost of retirees' comprehensive medical insurance offered through its health plan providers.

Currently, the Town reports a net OPEB obligation in its government-wide financial statements. However, the proposed new accounting standards will require that the net OPEB liability, which can be substantially larger than the net OPEB obligation, be reported in the government-wide financial statements. Adoption of this new accounting standard is several years away.

While this proposed accounting standard will likely materially affect the Town's government-wide financial statements, the Commonwealth has not passed legislation requiring municipalities to begin setting aside monies for this unfunded obligation like it has with pensions.

In 2014, the Town established an OPEB trust fund and as previously discussed, is actively funding it. Credit rating agencies like Standard and Poor's Financial Services LLC, or S&P, have begun to assign an allocation of the credit evaluation to the management of long-term liabilities, which includes OPEB.

As we have indicated in several previous letters to management, the Town should continue to include OPEB in its long-term planning.

### *Changes to Single Audit Requirements*

The Office of Management and Budget, or OMB, raised the threshold for OMB A-133 compliance audits (i.e., single audits) from \$500,000 to \$750,000. This new threshold is expected to apply to the Town in fiscal year 2016. However, the Town generally exceeds the new \$750,000 threshold so it should continue to plan on having a single audit performed for the foreseeable future.

Also included in the new audit requirements is a requirement that the Town's internal control structure should be in compliance with recognized internal control framework such as the Green Book or COSO. At first pass, this requirement doesn't seem overly complicated. However, history has shown that seemingly harmless words similar to these can cause an entity to expend significant time and monetary resources in order to comply.

Take for instance the Sarbanes-Oxley Act in 2002. Tucked into this law was Section 404, which required that a public company's management assess and attest to its internal control system. Public companies of a similar size to the Town expended hundreds of hours of resources and tens of thousands of dollars to comply with this law and created a cottage industry for accountants and consultants.

Adopting a formal internal control framework is new to municipalities and will likely require a good deal of evaluation, documentation, remediation and ongoing monitoring. We recommend that the Town commence this process by taking a common sense approach and tackle the areas in which the Town is most susceptible to an internal control deficiency. Over a period of time, the Town should complete the formal adoption of an internal control framework. We have attached the 17 principles of effective internal control issued by COSO in Section IV of this letter to management for your reference.

### ***Municipal Data Breaches***

We continue to report to management the need to enhance network security. The incidents of data intrusions and theft through computer networks continue to rise. In fact, there have been several recent issues that have made headlines here in the Commonwealth of Massachusetts.

We recommend that the Town place an emphasis on IT security and continually update its IT security appliances and software as well as its policies and procedures regarding IT security. To that end, outsourced resources may prove to be the most cost effective manner to achieve this.

Recently, a select number of highly qualified companies have emerged that conduct "Data Security Audits" for municipal entities. The audit is a comprehensive examination of the administrative, technical and physical security controls that a municipality has implemented to protect personal information. The resulting audit report identifies each condition that exposes the municipality to potential unauthorized access and offers practical recommendations to remediate these conditions.

### ***Bond Rating***

The Town has been very active in the capital markets in the past decade. As a result, the Town's bond rating is important to not only gain perception as a well-run community, but also to be able to issue bonds to investors for a lower interest rate. This will ultimately lead to reduced financing costs for the Town. The Town is currently evaluated by Moody's Investor Rating Services and has been for a number of years. Many communities are now requesting and receiving evaluations from both the major ratings bureaus in an effort to maximize their credit evaluations. We suggest the Town seek a credit evaluation from Standard and Poor Investor Services as well as Moody's in its next bond issuance.

### III. FINDINGS AND RECOMMENDATIONS

#### Prior Year Items

##### *Need for Risk Assessment*

As we reported in our previous letter to management, the Town was again the victim of a significant theft. We are pleased to report that the theft was discovered by the Town as a result of an internal reconciliation process initiated by the Town's Treasurer/Collector.

Many of the elements and opportunities to commit fraud within the Town have been remediated over the past two fiscal years. However, we continue to stress the need for continued oversight of the Town's finances as well as periodic, unannounced "spot audits" by the Town Accountant and his staff, particularly for departments who operate outside the Town Hall. In addition, a formal fraud policy should be developed and communicated to all Town employees, vendors and contractors.

##### *Selectmen Approval of Warrants*

We noted in our previous letter to management that vendor and payroll warrants had selectmen signatures stamped on the warrant designating their approval. Upon notification, the Town quickly ceased this practice and implemented an alternative means of obtaining selectmen approval for warrants.

##### *Policies and Procedures Manual*

In our letter to management dated November 1, 2013, we recommended that the Town develop formal policies and procedures for key financial processes, particularly in light of the relatively recent changes in financial management. A formal policies and procedures manual can prove invaluable in times of personnel turnover. We recommend that the Town establish a formal roadmap for the completion of this project and strive for completion before December 31, 2015.

We understand that the Town has begun this process, particularly with respect to the processes within its Treasurer/Collector's office. However, a comprehensive policies and procedures manual does not yet exist. We continue to stress the importance of this and encourage the Town to devote the resources necessary to complete this task. The Town was accepted into the Compact Cabinet in September 2015. Many communities that belong to the Compact Cabinet are receiving funding to outsource this task from the Commonwealth; this may be a route the Town can take.

##### *School Operations*

In our letter to management dated November 1, 2013, we recommended that the School evaluate the Town's new accounting system, which the School has not implemented. The use of disparate accounting systems creates the need for redundant data entry, which exposes the Town to unnecessary risk of processing errors. We understand that the School has not yet fully evaluated the Town's new accounting system.

In addition, we recommended that a student activities audit be performed by an independent accounting firm, which we are pleased to report is being performed in fiscal year 2016.

**IV. 17 PRINCIPLES OF EFFECTIVE INTERNAL CONTROL**

The following 17 principles of effective internal control were extracted from the publication by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, *Internal Control – Integrated Framework*. The entire internal control framework and implementation guides can be found online. We've included the COSO principles in this letter to management as the COSO framework is the most widely used internal control framework in the United States of America.

Internal Control Component	Principles
Control environment	<ol style="list-style-type: none"> <li>1. Demonstrate commitment to integrity and ethical values</li> <li>2. Ensure that board exercises oversight responsibility</li> <li>3. Establish structures, reporting lines, authorities and responsibilities</li> <li>4. Demonstrate commitment to a competent workforce</li> <li>5. Hold people accountable</li> </ol>
Risk assessment	<ol style="list-style-type: none"> <li>6. Specify appropriate objectives</li> <li>7. Identify and analyze risks</li> <li>8. Evaluate fraud risks</li> <li>9. Identify and analyze changes that could significantly affect internal controls</li> </ol>
Control activities	<ol style="list-style-type: none"> <li>10. Select and develop control activities that mitigate risks</li> <li>11. Select and develop technology controls</li> <li>12. Deploy control activities through policies and procedures</li> </ol>
Information and communication	<ol style="list-style-type: none"> <li>13. Use relevant, quality information to support the internal control function</li> <li>14. Communicate internal control information internally</li> <li>15. Communicate internal control information externally</li> </ol>
Monitoring	<ol style="list-style-type: none"> <li>16. Perform ongoing or periodic evaluations of internal controls (or a combination of the two)</li> <li>17. Communicate internal control deficiencies</li> </ol>