

**TOWN OF MAYNARD, MASSACHUSETTS**

**MANAGEMENT LETTER**

**YEAR ENDED JUNE 30, 2013**



**ROSELLI, CLARK & ASSOCIATES**  
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Board of Selectmen  
Town of Maynard  
Maynard, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Maynard, Massachusetts (the "Town") as of and for the year ended June 30, 2013, 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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

This communication is intended solely for the information and use of management, the Town, 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  
Certified Public Accountants  
Woburn, Massachusetts  
November 1, 2013

## I. OVERVIEW

Fiscal year 2013 provided further improvements to the local, national and international economies. According to the U.S. Bureau of Labor Statistics, Middlesex County's unemployment rate in July 2013 was 5.3%, which is a significant improvement over a high of 8.3% just three years earlier. Furthermore, residential home values continue to improve and the market for new and existing home sales has been robust over the past year.

While these improvements provide optimism to the Town and its residents, the Town must be diligent in managing its finances, particularly over the next ten fiscal years in which the majority of the Town's general obligation debt becomes due. The Town must remain cautious while preparing its budgets. The fine balance of maintaining both reserves to satisfy rating metrics and an adequate level of services has become an increasingly complicated annual task.

The Town ended the year with approximately \$5.2 million in unassigned fund balance. This represented nearly 14.0% of general fund expenditures. In addition the Town has begun the process of allocating excess cash resources to a newly established OPEB trust fund (see further discussions below). 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.

There are a number of future obligations that will materially affect the cash flows of the Town in the coming years including:

### *Debt Service*

At June 30, 2013, the Town had over \$57.1 million outstanding in general obligation bonds and other long-term debt instruments. This amounts to approximately \$4,900 per resident, net of reimbursements from the state for school construction.

Future debt service payments (*in thousands*), net of current subsidies, based on the June 30, 2013 outstanding balance amounts to the following over the next twelve fiscal years:

Fiscal year 2014	\$	5,378
Fiscal year 2015		5,273
Fiscal year 2016		5,093
Fiscal year 2017		4,997
Fiscal year 2018		4,818
Fiscal year 2019		4,727
Fiscal year 2020		4,625
Fiscal year 2021		4,537
Fiscal year 2022		4,419
Fiscal year 2023		4,158
Fiscal year 2024		2,876
Fiscal year 2025		2,843
Thereafter		<u>16,940</u>
Total	\$	<u>70,684</u>

As illustrated in the table to the left, commencing in fiscal year 2024, the Town's total debt service costs decrease significantly.

It is important to note that the Town receives approximately \$898,000 each year in connection with a state reimbursement for its construction activities at the Fowler School. This subsidy will continue through fiscal year 2023 and provide an offset to these debt service costs.

## ***OPEB***

The Town implemented the Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 45") several years ago. Other postemployment benefits ("OPEB") typically include 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 retiree Blue Cross Blue Shield health insurance premiums.

At June 30, 2013, the Town reported a net OPEB liability of approximately \$14.4 million. However, the unfunded actuarial accrued liability for these future benefit obligations totals over \$57.7 million as of July 1, 2012 (the date of the most recent actuarial valuation study). The Town began funding an OPEB trust in fiscal year 2012 and has accumulated over \$103,000 in this trust as of June 30, 2013. The Town is among a small but growing group of Massachusetts communities proactively addressing and funding this future obligation.

## ***Retirement Benefits***

The Town is funding its future retirement obligations using a funding schedule that is expected to fully fund the retirement plan on or about June 30, 2030. At January 1, 2011, which is the date of the most recent actuarial valuation, the Town's unfunded retirement obligation was nearly \$10.8 million. Based on the actuarial valuation of the Town's retirement assets, the Town's retirement plan was 71.8% funded on January 1, 2011.

In fiscal year 2013, the Town paid approximately \$1.6 million in pension fund appropriations to the Maynard Contributory Retirement System. Future pension fund appropriations based on this latest actuarial valuation range between \$1.6 million to \$1.9 million over the next five fiscal years.

## ***Compensated Absences***

In its government-wide financial statements, the Town reports as a liability, future payments to Town employees for earned and unused sick and vacation pay. The Town's internal calculation of this potential future obligation at June 30, 2013 approximated \$2.0 million. Of this total, \$1.1 million pertained to School employees, \$0.8 million for Town employees and nearly \$0.1 million for employees of enterprise funds.

### *School*

The School's calculation of its compensated absence balance totaled nearly \$1.1 million at June 30, 2013 and principally consisted of accumulations for teacher sick time. The current, in-effect collective bargaining agreement for teachers provides each teacher with fifteen sick days each school year. However, payouts for accumulated sick leave are available only upon three events: (i) normal retirement, (ii) death or (iii) involuntary termination. Furthermore, the dollar amounts of these payouts are capped; those hired in fiscal years 1986 and earlier can be paid out as much as \$24,545 in the current contract versus \$8,815 for those hired after June 30, 1986.

The School expects that, over the next five years, approximately nine employees will retire; seven of whom will likely receive the maximum payout of \$24,545. Future retirements will be paid out of unused sick time at the lower maximum threshold provided there are no material changes to collective bargaining agreements.

*Town*

Town employees may accumulate earned and unused sick time. The Town's current vacation policy is a "use-it or lose-it" policy and therefore, at June 30, 2013, there are no amounts accrued in the Town's financial statements for vacation.

Generally, sick time accumulations are capped depending on the individual employee's in-effect collective bargaining agreement.

The Town should work closely with the School Business Office and the Office of the Treasurer to forecast compensated absence payouts over the next ten years and factor these amounts into future budgets as well as future negotiations with labor unions.

In addition to the future obligations described above, there is a potential for a change in classification of the Town's largest real estate tax payer. Clock Tower Place is currently classified as commercial-industrial real estate and accordingly is assessed a higher real estate tax rate. The current owners of this property are investigating the conversion of a significant portion of this property into condominiums. The effect of this conversation and its timing are unknown to the Town at this time.

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**

### ***Statement on Auditing Standards No. 115 – Audit Communications***

The American Institute of Certified Public Accountants (“AICPA”) in 2009 issued Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (“SAS 115”). SAS 115 establishes new 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. Deficiency in internal control
2. Significant deficiency
3. Material weakness

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance. *Deficiencies in internal control* are not required to be communicated; however, we have chosen to also report that type of deficiency in this report.

We did not deem any of the findings in this report to be categorized as (2) or (3) above.

### ***Deminimus Property Tax Assessments***

The Town annually assesses property taxes for each tax entity for which the Town has reported taxable personal property. A large number of these personal property tax accounts have valuations less than \$10,000. At the current enacted property tax rates, these personal property tax accounts have minimal annual assessments. In many instances, the cost to assess, collect and follow-up on these de minimus accounts can exceed the actual property tax assessment itself.

We recommend that the Town consider including an article at the next Town Meeting asking voters to exempt property up to \$10,000 from being taxed. There are over 100 communities currently employing this practice. It is important to note that the elimination of these assessment would not reduce the amount of total property tax assessments in any given tax year; the remaining property tax accounts would absorb these de minimus accounts, which will likely amount to an insignificant additional amount to these tax payers, but will greatly increase efficiency within the Assessor and Collector Offices.

### III. FINDINGS AND RECOMMENDATIONS

#### *Policies and Procedures Manual*

Within the past two years, the Town has hired new department heads in financial management roles including its Town Administrator, Town Accountant and Town Treasurer/Collector. The development of formal policies and procedures for key financial processes is a key element in any internal control system. Furthermore, a formal policies and procedures manual can prove invaluable in times of personnel turnover.

As the Town recently hired a new, seasoned Town Accountant and has just implemented a new accounting software system, the Town should consider implementing an documenting a robust set of formal policies and procedures in the following areas:

1. Cash reconciliations between the Town Accountant and the Town Treasurer.
2. Reconciliations between the Town Accountant, the Town Treasurer/Collector and the managers of the Town's enterprise funds and its ambulance services of outstanding balances.
3. Procedures for the timely turnover of departmental receipts.
  - a. Who can collect cash at the department level?
  - b. How is cash controlled at the departmental level?
  - c. Where should cash be maintained prior to its turnover?
  - d. How much cash may be maintained prior to turn over?
  - e. How often should cash be turned over?
  - f. How are fees determined?
  - g. What insurance requirements should be in effect for individuals who handle cash at the departmental level?
  - h. What is the requirement to reconcile receipts periodically with the Town Treasurer?
  - i. What is the requirement to reconcile receipts with the Town Accountant?
4. Procedures for the timely submission of vendor invoices, recording of vendor invoices in the accounting system, assigning vendor payments to the warrant process and other vendor management controls.
  - a. Communication to all departments the requirements under Massachusetts General Law ("MGL") Chapter 30B.
    - Three verbal or written quotes on purchases under \$10,000.
    - Three written quotes on purchases between \$10,001 through \$25,000.
    - Formal bid process on purchases greater than \$25,000.
  - b. What items are exempt?
  - c. Establishment of a purchase order system to control expenditures from its initiation to its final disposition (i.e., payment).
  - d. Establishment of a matching process whereby purchase order, invoice and receiving document or equivalent are matched prior to authorization to disburse funds.
  - e. Enforce the MGL requirement of department heads to submit executed contracts to the Town Accountant.
5. Employee benefits and payroll processing:

- a. Personnel policies such as hiring and terminating employees.
- b. Background checks.
- c. Lines of responsibility and delegation and to whom each employee reports.
- d. General harassment policies; including sexual harassment policies, which are required by law.
- e. Minimal expectation levels for employees.
- f. Vacation and sick policies.
- g. Fringe benefit qualifications.
- h. Authorization policies.
- i. Truancy policies.
- j. Timesheet policies.

### ***Payroll and Personnel Processing***

1. Federal Employment Eligibility Verification Forms – The Town does not use the current Federal Employment Eligibility Verification form, commonly referred to as Form I-9, as required under federal law. The Town is required to use the most up-to-date Form I-9, which was last revised on March 8, 2013.

In addition, the Town is not properly completing and endorsing the employer portion of the Form I-9's. In many cases, the Town is not receiving the appropriate documents to support an employee's eligibility to work.

We recommend that the Town evaluate its current new hire and other personnel processes versus federal and state employment laws as well as best practices within human resources. A new hire checklist should be developed and used for each new hire to better ensure that the Town has completed its legal obligations with respect to new hires and provide the Town with greater assurance that it is processing its personnel transactions properly. We understand that the Town is seeking a new hire within the Office of the Town Administrator that has human resource experience and we recommend that this new hire work closely with the Office of the Treasurer, who is the primary department for personnel issues and actions.

2. Payroll Audit Reports – The Town's payroll processor has the ability to provide audit reports with each payroll processed. These audit reports provide valuable information and highlight changes to employee pay information such as base salary or hourly wage. The use and review of these audit reports can serve as a valuable detective control within the Town's payroll processes.

We recommend that the Town work with its payroll processor to obtain these reports and develop a process by which these reports are reviewed by both the Office of the Treasurer and Town Accountant.

### *Maynard Golf Course*

The Town purchased a golf course previously known as the Maynard Country Club in fiscal year 2012 for \$2 million. This purchase was financed with a general obligation bond as well as funds from the Town's community preservation reserve funds. The Town currently accounts for the golf course's operations in its general fund. We evaluated the need to reclassify these operations into a separate enterprise fund for financial reporting purposes, but concluded this reclassification was not warranted at this time particularly as the ultimate disposition of this asset is not yet known. There exists the possibility that this golf course may be converted into open space or used in other manners.

In connection with our audit, we observed financial transactions related to the golf course that we believed needed to be documented in this letter to management including:

1. Modifications to Terms and Conditions – The Town executed a 33-month agreement with a third party to manage the day-to-day operations of the golf course. The agreement indicates that no further costs, fees or reimbursable charges are due to the golf course management company unless set forth in writing as an amendment to the agreement. The Town has forgone any financial consideration in the first full year of golf course operations (i.e., fiscal year 2013) in exchange for the golf course management company performing certain repairs to the course's facilities. This modification to the agreement was verbal and not in writing in accordance with terms and conditions of the agreement.

We recommend that all parties involved with the golf course management within the Town familiarize themselves with all contracts and agreements in place. Furthermore, any and all negotiations with the golf course management company should be made between the golf course management company and the Town Administrator and, if necessary, Town legal counsel.

2. Regular Monthly Reporting – The golf course management company is required to submit monthly reports on its financial operations to the Town Treasurer each month and course maintenance reports each month to the Town. Such regular reporting is not taking place.

We recommend that the Town enforce these requirements. Furthermore, the agreement permits the Town to perform periodic audits of the golf operations. We recommend that the Office of the Town Accountant perform semi-annual audits of the financial records as well as evaluate the golf course management company's cash management and control system and its system to account for "comps" issued in accordance with the agreement.

3. Compensation – We understand that the current golf course management company was the sole bidder in the Town's open request for quote ("RFQ") in managing the golf course. This was likely due to the state of repair of the golf course, particularly its club house, at the time of bidding. As such, its \$50,000 guaranteed minimum annual fee was the best the Town could secure at this time.

The current management agreement with the golf course management company is set to expire on December 31, 2014. We recommend that the Town begin a process of interviewing other municipalities that outsource the operation of their golf course to third parties and establish benchmarks by which it can evaluate responses to its likely open RFQ process. To facilitate this process, the Town should obtain all delinquent monthly financial reports from the golf course management company and perform an internal audit of these figures (see item 2 above); it will be essential that operating metrics and past revenues be included in the next open RFQ.

### *School Operations*

Accounting Systems – The Town recently implemented a new accounting system to manage its operations. The School uses a disparate, nonintegrated accounting system. School officials indicated that they are reluctant to converting over to a new accounting system as the new Town accounting system is the third accounting system the Town has implemented over the past decade. At this time, we concur with their assessment based on this history. However, we strongly recommend that the School objectively evaluate the newly implemented accounting system over the coming fiscal year.

Due to their use of a disparate and nonintegrated system, the Town must manually reenter all of the School's vendor and payroll warrant details into its accounting system. We understand that a data "bridge" is being developed between the two software companies, however such data bridges can be susceptible to error. The Town must implement detective controls to ensure that the data transfers are complete and accurate.

Student Activities Audit – The School has not had an audit of its student activities performed by an outside independent accountant in a number of years. The Massachusetts Association of School Business Officials, or MASBO, recommends that an outside independent accountant audit these accounts every three years at a minimum. Furthermore, the Massachusetts Department of Revenue has begun investigating student activities and believes that this is an area of great concern.

We recommend that the School evaluate its current student activities processes and the means of accounting for the inflows and outflows of monies held by its schools for the benefit of students' co-curricular activities as soon as possible. Furthermore, we recommend that the School engage an outside independent accountant to perform agreed-upon procedures on the student activities in its High School one year and its Fowler and Green Meadow Schools the following year.

### *Unaccounted Water*

Water leaks are a normal occurrence in every water system. The amount of leaked water is referred to as unaccounted water. Water departments need to perform a variety of measures to address unaccounted water as not all unaccounted water is in the form of leaks. For example, municipal buildings like schools other fixtures like fire hydrants consume water but are generally not metered. Water departments need to "account" for these water uses to arrive at a "real" unaccounted water figure. This is important because "real" unaccounted water is likely due to leaks and unaddressed leaks generally worsen over time, not only wasting resources and money but also damaging the materials the water comes in contact with.

The Town's new DPW director indicated that the Town's unaccounted water exceeds the Massachusetts Water Resource Authority's recommendation of 10% or less. Furthermore, the new DPW director indicated that he was in the process of evaluating unaccounted water and developing a remediation plan.

We recommend that the Town's water department diligently perform this analysis and develop a realistic timeframe for completion to best mitigate water leaks within its water system.

### *Retirement System Audit*

The Maynard Contributory Retirement System ("MCRS") has not had an audit of its financial statements performed by an independent accountant in several years. We recommend that the Town work closely with the MCRS to have an audit performed for the calendar year ended December 31, 2012 as soon as possible. We understand an RFQ process is currently being evaluated.

### *Old Accounts*

The Town maintains several old liability accounts that haven't had any activity since the conversion of accounting systems over five years ago. The Town has a \$33,879 planning board deposit and an "other liability" of \$21,075 that cannot be supported at this time.

We recommend that the Town investigate these balances and determine the proper manner to dispose of these old and likely unnecessary liabilities.

### *Fraud Prevention Measures/Departmental reviews*

In these trying economic times, it is reasonable to expect that the frequency of fraud and theft by employees, customers and vendors may increase. The Town should be well aware of this increased risk and take additional measures to better safeguard the Town's cash and other assets. Fraud can include theft, the misappropriation of assets such as cash or easily marketable equipment like computers, the execution of transactions with related parties that are not disclosed and not completed "at arm's length," or the modification or fabrication of financial records to protect job security. The Town must increase its focus and awareness of fraud risks throughout all areas of local government. Suspicious or unusual activity, particularly in cash handling areas, should be promptly investigated.

We suggest the Town implement the following:

**Develop a Written Fraud Policy** – Implement a written fraud risk policy. Such a policy would direct the Town to perform a risk assessment allowing the Town to identify, analyze and manage the risk of fraud.

**Establish a Limited Internal Audit Process** – The Town does not have sufficient resources to create an autonomous, internal audit function. However, under Chapter 41 of Massachusetts General Law ("MGL"), the Town Accountant or equivalent position has the ability to examine books and records of any department on a periodic basis, and at least on an annual basis.

We suggest that the Accounting Office cycle audit the cash handling departments. A different department should be chosen each month, and the cash handling for that month should be reconciled independently. For example, in the area of Town Clerk, the number of dog permits issued during a given period should be checked against the amount of money turned over from the Town Clerk to the Treasurer. Such a process would provide an excellent deterrent against fraud.

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.