

**TOWN OF MAYNARD, MASSACHUSETTS**

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2014

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Board of Selectmen  
Town of Maynard  
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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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 23, 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  
February 23, 2015

## **OVERVIEW**

Fiscal year 2014 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 June 2014 was 4.6%, which is a significant improvement over a high of 8.3% just four 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 \$6.4 million in unassigned fund balance in its general fund. This represented over 16.5% of fiscal year 2014 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.

As discussed in more detail in our November 1, 2013 letter to management, there are a number of future obligations that will materially affect the cash flows of the Town in the coming fiscal years including:

**Debt Service** – At June 30, 2014, the Town had nearly \$55.1 million in general obligation bonds and other long-term debt instruments. Future debt service payments, net of current subsidies, for the next nine fiscal years are significant and range from nearly \$5.7 million (fiscal year 2015) to \$4.4 million (fiscal year 2023).

**Other Postemployment Benefits** – 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, 2014, the Town reported a net OPEB liability of approximately \$18.9 million. However, the unfunded actuarial accrued liability for this future benefit obligation 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 nearly \$208,000 in this trust as of June 30, 2014. The Town is among a small but growing group of Massachusetts communities proactively addressing and funding this future obligation.

**Pension Benefits** – Future pension appropriations based on the latest actuarial valuation range between \$1.7 million to \$1.9 million over the next five fiscal years.

**Compensated Absences** – Compensated absences represent obligations due to Town employees for earned but unused vacation and sick time. The Town's internal calculation of this potential future obligation at June 30, 2014 approximated \$1.9 million. Of this total, \$1.1 million pertained to School employees, \$0.7 million for Town employees and nearly \$0.1 million for employees of enterprise funds.

The School's calculation of its compensated absence balance totaled nearly \$1.1 million at June 30, 2014 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 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, 2014, 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.

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 2015 resulted in a residential tax rate of \$22.31. However, the Town does not have a significant amount of tax levy limit available; the difference between the Town's actual property tax levy and the maximum permitted under law was \$4,470,114 in 2013, \$1,628,965 in 2014 and \$1,903,420 in 2015. The significant decline in tax levy limit is due primarily to the steady decline in assessed real estate values over the past five years – equalized valuations approximated \$1.237 billion in 2011, \$1.223 billion in 2012, \$1.295 billion in 2013, \$1.130 billion in 2014 and \$1.174 billion in 2015. The five year decline of \$63 million represents nearly \$1.6 million in property tax levy.

In addition to the tax levy limitation 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.

## **INFORMATIONAL ITEMS**

### ***Changes to Accounting and Reporting of Government Pensions***

In June 2012, the GASB issued Statements No. 67, and No. 68. Both statements will materially impact the Town's reporting of pension liabilities, effective fiscal year 2015.

Because the calculations necessary to implement these statements will be generated by the Maynard Regional Retirement System (the System), it is imperative that the Town work with the System to ensure that the information needed is available in sufficient time to be included in the Town's fiscal year 2015 financial statements.

The following areas will be impacted materially:

- 1) Certain actuarial methods of calculating the accrued pension liability will now be mandated, instead of optional.
- 2) The value of actuarially determined pension benefits that have been earned (by both active and non-active employees and pensioners) will now be reported as a liability in the Town's Statement of Net Position and the applicable accrued costs included within the Statement of Activities.
- 3) Enhanced and more detailed financial statement footnote disclosure relative to the pension plan will be required.
- 4) Enhanced and more detailed required supplementary information reporting relative to the pension plan will be required.

*In the event the information is not available, it will result in an adverse opinion to the financial statements, and potentially reduce the Town's credit rating. Therefore we urge the Town to work with the System and maintain an open line of communication regarding the timing of this information.*

### ***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.

***Comcast and Verizon PEG Access Funds***

The Town has accumulated over \$750,000 in public, educational and governmental (“PEG”) access fees in a *receipts reserved for appropriation* fund. Recently, the Massachusetts Department of Revenue’s legal division determined that this type of accounting to be inappropriate as these revenues are fees and therefore are required to be reported in the Town’s general fund.

After a number of legal challenges, the Massachusetts legislature passed a law effective January 15, 2015 that permits municipalities to maintain these funds in a *receipts reserved for appropriation* fund upon successful local option vote at Town Meeting authorizing such a *receipts reserved for appropriation* fund.

If Town Meeting does not authorize this legislation by the end of fiscal year 2016, the Town will be forced to transfer all these funds into the general fund at the close of fiscal year 2016.

## **FINDINGS AND RECOMMENDATIONS**

### ***Need for Risk Assessment***

In April 2014, the Town terminated an employee in its Treasurer/Collectors office for alleged theft of trash sticker revenues. As the result of an internal investigation and an external evaluation, it is likely that trash sticker monies were being stolen over the course of more than two years. As we indicated in our letter to management dated November 1, 2013, instances of municipal theft have increased significantly over the past several years. Among other recommendations we made at that time, we suggested that the Town establish certain internal audit procedures. We are pleased to report that the alleged theft was discovered by the Town as a result of an internal reconciliation process initiated by the Town's Treasurer/Collector.

Although this alleged theft was discovered through an internal review, there were many red flags that existed within this department and the Town as a whole including:

- Significant turnover in key financial and executive management roles such as Treasurer/Collector, Town Accountant and Town Administrator; and
- A lack of segregation of duties within this department with respect to this particular business process.

This is the second public instance of a large-scale theft that has affected the Town over the past several years. We recommend that the Town perform a risk assessment of its most vulnerable business processes. This risk assessment should be performed at the highest levels of the Town's management with inputs and interaction with the Treasurer/Collector and Town Accountant. The documented results of this risk assessment should be evaluated and significant flaws in the design of the Town's current processes should be documented and steps for remediation taken.

Furthermore, we continue to recommend that the Town implement a fraud policy and perform periodic internal reviews of its business processes, particularly those that include cash handling.

### ***Selectmen Approval of Warrants***

Although not specified in its Town Charter, vendor and payroll warrants are presented to the members of the Board of Selectmen for review and approval prior to the issuance of payments to vendors and employees. In practice, valid warrants require the signatures of a majority of members of the Town's Board of Selectmen to become valid.

In most cases, the Town will inform each member of the Board of Selectmen via email of a pending warrant. Members of the Board of Selectmen are requested to provide their approval to the warrants and authorize the Town to affix their signature stamp on the warrant designating approval.

In connection with our audit, we determined that this system has a number of design flaws including:

- The email communication does not detail the warrant number or amount of the warrant being sought for Selectmen approval; and
- The email communication does not contain any attachments for review by the members of the Board of Selectmen.

This represents a design flaw in internal control as the Town cannot reasonably demonstrate that its Selectmen have reviewed the warrant and its supporting documentation. Therefore, the required approval process per the Town's charter cannot be demonstrated and the Town risks making unapproved and unauthorized payments to outside vendors

We recommend that the Town either (i) require its Selectmen to physically sign vendor and payroll warrants prior to issuing payment or (ii) enhance the email communications between the Town and its Selectmen to include all pertinent financial information, including a pdf or scan of the actual vendor and/or payroll warrant. Should the Town continue to use email communications as approval mechanisms, positive responses should be attached to the final vendor and/or payroll warrant to evidence the individual Selectman's review and approval.

### ***Tailings***

In connection with our audit of the Town's primary vendor checking account, there are a significant number of old outstanding checks. This represents not only opportunity for the Town to recoup monies, but also a risk for a check tampering scheme.

We understand that the Town Treasurer has recently implemented a tailing process. We recommend that the Town investigate these old items and take the appropriate steps to either transfer these amounts to the State or take the appropriate measures to advertise these unclaimed amounts.

## **STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

### ***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. We understand that the Town has begun this process, particularly with respect to the processes within its Treasurer/Collector's office.

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. We recommend that the Town establish a formal roadmap for the completion of this project and strive for completion before December 31, 2015.

### ***Personnel Processing***

In our letter to management dated November 1, 2013, we determined that the Town was not using the current Federal Employment Eligibility Verification form, commonly referred to as Form I-9, as required under federal law. Furthermore, the Town was not properly completing and endorsing the employer portion of the Form I-9's. We understand that the Town has implemented improvements to these personnel processing areas.

### ***Maynard Golf Course***

In our letter to management dated November 1, 2013, we identified several areas of concern regarding the Maynard Country Club, which was purchased by the Town in fiscal year 2012 for \$2 million. Specifically, the Town has not received the compensation it sought from the third party manager of the golf course. We understand that there have been a number of negotiations between the Town and the golf course manager and that the current agreement for the operation of the golf course is near its expiration.

We recommend that the Town closely monitor the next operating agreement for its golf course and develop a monitoring schedule with the next golf course management company to ensure that the Town better safeguards this investment.

### ***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. *We understand that the School intends of performing an audit of its student activities in the coming fiscal year.*

***Retirement System Audit***

The Maynard Contributory Retirement System (“MCRS”) had not had an audit of its financial statements performed by an independent accountant in several years. We recommended 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. An audit of the 2012 and 2013 MCRS financial statements was completed in 2014.

***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 investigated these balances and resolved these old accounts in fiscal year 2014.

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