

**TOWN OF MAYNARD, MASSACHUSETTS**

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2017

*Table of Contents*

Transmittal letter.....1

Overview.....2

Informational Items .....3 – 4

Findings and Recommendations .....5 – 6



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Board of Selectmen  
Town of Maynard  
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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, 2017, 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 Board of Selectmen, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Roselli, Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
December 4, 2017

## OVERVIEW

At the conclusion of fiscal year 2017, the local, state-wide and national economies continue to strengthen. Unemployment rates are low and property values are rising. The Town has been the beneficiary of a resurgence in its Clock Tower property, the former home of Digital Equipment and dozens of high-tech startups from the 80's and 90's. In addition, there are a number of small to large developments in the works that would increase the Town's property tax base even further and improve the Town's budgetary flexibility.

In its governmental funds financial statements, which most closely resembles the Town's statutory accounting records, the Town's unassigned fund balance in its general fund approached \$5.6 million at June 30, 2017. This is an approximate \$1.3 million decrease from the prior year and was due primarily to the Town's funding of a number of significant capital projects in 2017 and the continued increased costs associated with health and retirement benefits.

Although the Town experienced a decrease in its general fund unassigned fund balance, its liquidity continues to be strong. Liquidity in the general fund is often measured by comparing both the unassigned fund balance to the current year's total fund expenditures. Credit rating bureaus often refer to this as a "reserve ratio." At June 30, 2017, the unassigned fund balance in the general funds approximated 13% of total general fund expenditures. Furthermore, the total fund balance in the general fund approximated 16% of that same amount.

The Town continues making contributions into its OPEB trust to assist it in meeting its future obligations. In 2017, the Town contributed an additional \$100,000 to this trust. Since its inception, the Town has contributed approximately \$1,000,000. The monies in this trust are principally overseen and managed by a third party investment manager with significant experience with Massachusetts municipalities.

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 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.

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

### ***New Financial Statement Disclosures – OPEB Part 1***

The Town adopted Governmental Accounting Standards Board, or GASB, issued Statement No. 74, *Financial reporting for Postemployment Benefit Plans Other Than Pensions*, in fiscal year 2017. Other postemployment benefits is commonly referred to as “OPEB” and includes health and welfare plans and other similar benefits provided to Town retirees exclusive of pension benefits. The Town’s current policy is to contribute 75% of the cost of retiree health insurance costs, which is the lion’s share of OPEB.

The adoption of this accounting standard resulted in additional disclosures within the Town’s financial statements and the inclusion of the effects of retiree benefits paid and received (both from the Town and its retirees) in the Town’s fiduciary funds financial statements.

### ***FY 2018 New Accounting Principle – OPEB Part 2***

As discussed in previous letters to management, the Town will be required to report the full amount of its net OPEB *liability* in its government-wide and proprietary funds financial statements in fiscal year 2018. The Town currently reports a net OPEB *obligation* in its government-wide financial statements calculated under GASB 45.

The Town’s net OPEB *liability* is significantly greater than its net OPEB *obligation*. The Town’s independent actuary determined that the Town’s net OPEB *liability* at June 30, 2017 was approximately \$58.4 million versus a net OPEB *obligation* of approximately \$26.4 million.

The Town’s independent actuary will remeasure the Town’s net OPEB liability at June 30, 2018. The Town will present this figure in its fiscal year 2018 affected financial statements. This will result in a further deterioration in the Town’s unrestricted net position.

The Town established an OPEB trust fund several years ago and has contributed nearly \$1 million into it from its inception to June 30, 2017. As it stands at June 30, 2017, the OPEB trust fund is approximately 2% funded.

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 – Need for Internal Control Framework***

In our previous two letters to management, we notified the Town that there were a number of changes made to single audits. One of the requirements under the new Uniform Guidance (the successor to the OMB A-133 compliance supplement) is that all federal award recipients are required to establish an internal control system based on a recognized internal control framework such as the Green Book or COSO.

While the majority of the Town's federal awards pertain to educational grants, the Town has been the recent recipient of large federal awards in other areas, particularly in public safety. Many Massachusetts municipalities of similar size to the Town are focusing their efforts solely at the school level, for which the MASBO provides significant guidance, including policies and procedures templates. The proper implementation of any internal control system requires coordination or resources between not only the Town Accountant, but the School Business Office (the primary recipient of federal awards) and the Town Treasurer.

In July 2017, the Town approved a personnel handbook containing a wide variety of personnel policies and procedures. The Town continues to work on its financial policies and procedures manual. Documented policies and procedures, while critical to any internal control system, is but one of a series of components to an internal control system. We recommend that the Town evaluate the Green Book internal control system and document the Town's compliance with this recognized control framework over the next two fiscal years.

### ***Student Activities in the News***

On November 27, 2017, the *Boston Globe* reported on the Boston Public Schools' use of student activity accounts to pay employees "under the table" and for purposes unrelated to student activities. These violations of federal and state tax law and Massachusetts General Laws were uncovered by an IRS audit. The *Boston Globe* article spotlights the need for continued oversight of the operation of a school district's use of student activity accounts as well as the risks associated with their misuse. Furthermore, as these matters were made public in the state's most widely circulated daily newspaper, this may lead to additional rules and regulations being issued by the Commonwealth related to student activity accounts.

We are pleased to report that the Town's schools undergo independent reviews of their student activity accounts on a rotational basis in accordance with recommendations set forth by the Massachusetts Department of Elementary and Secondary Education and the Massachusetts Association of School Business Officials, or MASBO. In our report on the Town's student activities dated December 31, 2015, there were a number of areas in need of improvement at both the High School and the Fowler Middle School. The next scheduled period of independent review of the Town's schools is fiscal year 2018.

We recommend that the Town revisit our December 31, 2015 report and ensure that progress has been made in areas in need for improvement. Furthermore, we recommend that the Town provide a copy of this article to all school principals as a training tool and to continue its diligence in managing this fiduciary activity.

## FINDINGS AND RECOMMENDATIONS

### *Old Checks in Outstanding Check Listing*

At June 30, 2017, included in the outstanding check listing for the Town's vendor checking account were checks totaling \$20,102 which were dated more than fifteen months before year end. Due to this lapse of time, most financial institutions would not process these checks.

We recommend that the Town evaluate its outstanding check listing to determine whether or not it has reissued checks subsequent to their initial issuance, and therefore double recorded the item against its budget. In instances in which a substitute check was issued, these amounts should be added back to cash. In instances in which a substitute check was not issued, we recommend that the Town follow the appropriate state laws regarding abandoned property.

### *Excessive Employee Withholding Account Balances*

The Town pays its employees in three principal manners:

1. Town employees (exclusive of teachers) who are paid bi-weekly based on their annual salary or their hourly rate applied to hours worked;
2. School teachers who are paid their annual salary evenly over twenty-two pay periods; and
3. School teachers who are paid their annual salary calculated over a twenty-six bi-weekly basis, but paid over twenty-two pay periods with one lump sum payment in late June for the summer months.

In connection with our audit procedures, we observed that certain health, retiree health and COBRA health withholding accounts appear to have grown to excess. At June 30, 2017, these withholding accounts accumulated an aggregate balance of \$274,322. Due to the manner in which the Town withholds employee health deductions, generally one month in advance, a liability balance is always expected in these accounts. However, as the Town essentially has three payroll frequencies for its payroll, periodic true-ups are needed to account for timing issues.

Based on our recalculations, it appears that these withholding accounts are overstated by approximately \$58,000. This represents monies that the Town paid from its appropriation that should have been paid from these withholding accounts. Accordingly, upon a full and satisfactory reconciliation, the Town may take this overstatement into income.

We recommend that the Town perform a semi-annual analysis of its employee withholdings generally at the end of the first and third calendar quarters, which are least affected by seasonality.

***Need for Risk Assessment***

Over the past several years, the Town has done a good job in improving its internal controls, particularly those intended to prevent, detect and/or deter fraud. Most of the elements and opportunities to commit fraud within the Town have been greatly remediated.

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.

Risk assessment is a key element in any internal control system and is a large part of both the COSO and Green Book internal control framework. The Town's adoption and documentation of its internal control system as part of its compliance with federal award guidelines (see pages 3 and 4) will incorporate risk assessment with respect to federal awards (at a minimum).

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