

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF TEMPLETON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2022



TOWN OF TEMPLETON, MASSACHUSETTS

MANAGEMENT LETTER

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

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Select Board
Town of Templeton
Templeton, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Templeton, Massachusetts, (the "Town") as of and for the year ended June 30, 2022, 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 our auditing procedures 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Select Board, and 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

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
April 6, 2023

INFORMATIONAL ITEMS

Current Challenges

With inflation peaking near 40-year highs, and an aggressive Federal Policy Committee increasing rates at a historic pace, the Town can expect challenges in other areas that it has not faced in many decades:

1. Wage inflation – the ability to maintain quality employees at reasonable wages.
2. Interest rates – the ability to finance capital projects at reasonable financing costs.
3. Construction inflation – the ability to complete capital projects at budgeted costs.
4. Energy inflation – the rising costs of oil, gas and electricity.
5. Goods and services – the supply chain disruptions impacting efficiency and cost of delivery of services.

We urge the Town to monitor these situations very closely and plan accordingly as it sets forth in its fiscal 2024 budget process and capital planning.

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% yields and are liquid and legal borrowings in Massachusetts.

This comment serves as an alert to the Town that investment strategies not available to the Town in at least 20 years are beginning to present themselves and could be financially beneficial. Each \$1 million invested could return \$40,000 to \$50,000, using an effective safe and liquid strategy.

Long-term obligations (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 \$5.4 million (about 95% unfunded and an additional \$2.5 million in the Enterprise Funds). This is not unusual as multiple communities across the Commonwealth continue to trail in this area and will ultimately need to adopt more aggressive contribution policies in future years when the pension becomes fully funded.

With respect to its pension funding, the Town is a member of the Worcester County Contributory Retirement System (WCCRS) along with numerous other towns and districts. With a 56.2% funding ratio, it is near the lowest funded pension system in the State and well 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 2035 the Town can expect to see its pension assessment rise rapidly at a rate of at least 10% annually.

The Town should continue to factor increases as discussed above into its long-term financial plans.

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 has a very 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 Prevention (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 discuss this with management annually and in prior audits have included the evaluation of various cash handling areas as part of our procedures.

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.

GENERAL FINDINGS AND RECOMMENDATIONS

1. Police Details

The Police Administrator was out for a significant period of time during fiscal year 2022 and police details were not being entered into the system. Therefore reports at year-end were not accurate and could not be reconciled to the general ledger.

In addition, the police did not generate a detail report as of 6/30 which system does not let auditor properly identify if details are accurately recorded by the Town Accountant.

Road details in the general ledger reflected a deficit balance of \$52,000 and this account should be reconciled as soon as possible.

2. Title V Loans

Title V loans were not properly recorded in the Treasurer/Collector software for two septic systems installed at year-end.

It is important that these loans are reconciled so the general ledger to determine if these have been accurately reported.

3. Payroll and Other Liabilities (update from prior year -partially resolved)

- The Town continues to carry a deficit in its spending plan related to a prior year. After further investigation by the Town during fiscal 2021, it was determined that an employee who had left the Town was never taken off the plan and the Town continued to be charged for his portion, but there were no withholdings to offset these charges. The Town is attempting to be reimbursed by the insurance company but currently, the deficit remains.
- The Town maintains an account called Other Liabilities. It currently has a deficit balance of over \$5,000. The Town should determine if this is a permanent deficit and if it should be raised.
- The Town currently maintains two escrow accounts that have had deficit balances for a few years. These deficits should be eliminated by raising them on the tax recap.

4. Indirect Costs (update from prior year – not resolved)

Water, sewer, and light indirect costs are approved at Town Meeting, and transfers are made annually into the General Fund. However, they are not reflected as transfers on the tax recap, but instead as miscellaneous revenues and expenses. Furthermore, the transfers are not made if sufficient resources do not exist in the enterprise funds, and there is no formal process to the calculation of indirect costs from year to year.

A more comprehensive calculation of indirect costs should be undertaken, documented, and signed off by the Town and enterprise funds with updates performed every few years.

5. *Capital Assets (updated from prior year – partially resolved)*

The Town has made significant progress in its capital asset reporting system. In the prior year we recommended that the Town Accountant review the current inventory listings that were created over 15 years ago and determine if they need to be updated for capital assets that are no longer in service.

6. *Treasurer/Collector Office (update from prior year - partially resolved)*

In our letter to management dated March 23, 2017, we identified 17 critical areas in the Treasurer/Collectors Office that needed to be addressed. All of those have been addressed through fiscal year 2022, except for:

- Cash forecasts are currently not prepared as part of a monthly routine. This is a critical process for Towns; we suggest such a process is implemented immediately.