

TOWN OF PHILLIPSTON
PHILLIPSTON, MASSACHUSETTS
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2009

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Selectmen
Town of Phillipston
Phillipston, Massachusetts

We have audited the financial statements of the governmental activities each major fund, and the aggregate remaining fund information of the Town, (Town) as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 20, 2009. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal controls.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

We noted certain other matters that we reported in the body of this letter.

This report is intended for the information of the management, Board of Selectmen, governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Roselli, Clark and Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 20, 2009

INTRODUCTION

We noted in our letter to management dated October 31, 2008 that the Town has taken great strides in remediating many weaknesses in its accounting operations and financial reporting, including several significant deficiencies. We are pleased to report to management that the Town continues to progress in a positive manner in this regard.

Fiscal year 2009 was marked with a great deal of financial uncertainty for Massachusetts municipalities. In mid fiscal year 2009, Massachusetts municipalities were notified that their local aid would be reduced, in some cases significantly. At the same time, many Massachusetts municipalities are experiencing deteriorations in the timeliness of their collections of property and excise taxes. Through all this, the Town successfully increased its stabilization and capital investment fund from \$326,802 at June 30, 2008 to \$400,253 at June 30, 2009.

INFORMATIONAL ITEMS

Recommendation to Improve General Internal Controls

Internal controls consist of several interrelated components that, when operating effectively, provide the Town, its residents and tax payers reasonable assurance that the strategic and operational objectives of the Town are met. Policies and procedures should be established that:

- 1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of the Town;
- 2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial information and that receipts and disbursements of Town funds are being made only in accordance with authorizations of the Town, its Board of Selectmen and Massachusetts General Law; and
- 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Town funds.

The Town does not have many formal organization policies or procedures, which is not atypical for a municipality of its small size. However, the Town would benefit greatly by adopting a series of formal policies and procedures in the following areas:

- a) Personnel policies including:
 - i. A harassment policy;
 - ii. An ethics policy;
 - iii. Initial hiring procedures and background checks;
 - iv. Formal job descriptions;
 - v. Time reporting procedures; and
 - vi. Vacation and sick time policies.
- b) Investment policy;
- c) Cash receipts, disbursements and handling policies; and
- d) Account reconciliation policies and procedures.

Effective policies clearly communicate what is expected of the Town personnel along with the intent and purpose behind the expectations. The use of this control mechanism would better ensure, among other things, that Town transactions are authorized and used for their intended purpose.

Increased Awareness of Fraud and Theft

The Town should be aware that, as the federal, state and local economy continues to become weaker, the risk of fraud and theft increases. 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.

Many communities are in the process of designing and implementing written fraud risk policies. Such policies would direct the Town to perform a risk assessment on its operations to identify, analyze and manage the risk of 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.

New State Ethics Rules

On July 1, 2009, the Governor signed into law Chapter 28 of the Acts of 2009, *An Act to Improve the Laws Related to Campaign Finance, Ethics and Lobbying*. This new law changed the State’s conflicts of interest law, which became effective on September 29, 2009. Among other things, this law requires Massachusetts’ city and town clerks to provide newly hired employees with a summary of this new law within thirty days of their hire. The Town will also be required to designate a senior level employee to serve as its liaison to the Massachusetts State Ethics Commission on or before January 27, 2010. In addition, all individuals who are considered a State, county or municipal employee must comply with new training requirements.

All Town employees (as defined by the law; see below) will be required to complete online training every two years. For new employees, such training must be completed within thirty days of hiring. For current Town employees, online training must be completed by April 2, 2010.

The definition of an employee is very broad in this law. A State, county or municipal employee includes full-time, part-time and intermittent employees; appointed officials, whether paid or unpaid; and volunteers. In addition, consultants who have a contract with the State, county or municipal agency may be considered public employees for the purposes of this law.

FINDINGS

Finding 1 – Timeliness of Chapter 90

The Town has undergone significant improvements to its roads. Portions of these costs are subject to reimbursement under MGL Chapter 90. We commend the Town for taking advantage of reimbursements from the Commonwealth as it strives to improve its infrastructure at no cost to the taxpayer. However, we noted situations whereby requests for funds were made well after the cost itself.

We noted that over \$77,000 that was spent prior to June 30, 2009 had not been reimbursed to the Town at the time of the audit. The Town can expect at least a ninety (90) day processing time from the Commonwealth. Therefore, any delay in the application for these entitled funds will negatively affect the Town's cash flows. As a result, it is critical that reimbursement forms are filled out and submitted as quickly as possible after the disbursement.

The Massachusetts Highway Department's website can provide the Town with a guideline to follow to better assure timely reimbursements under Chapter 90. We recommend that the Town aggressively complete the necessary reimbursement procedures to secure the funds entitled to the Town on a timely basis.

Finding 2 – Unrecorded Bank Account

In connection with our audit procedures, we discovered a bank account belonging to the Town that was not recorded in the underlying accounting and financial records. An account appears to have been established in fiscal year 2007 and has been maintained by the Town Police Department, not the Office of the Town Treasurer, to account for small State seizure funds transferred to the Town.

While this account has little activity (\$250 and \$500 in receipts in fiscal years 2009 and 2008, respectively) and has an insignificant balance at June 30, 2009 (\$1,116), its absence from the Town's accounting and finance records represents a breakdown in communication and internal controls.

The Office of the Town Treasurer is currently working with the Town Police Department to secure these funds and record the historical transactions in the Town's records. We recommend that the Town inquire with all municipal departments and agencies to determine whether there are any other unrecorded Town bank accounts or cash deposits.

Finding 3 – Tax Title Detail (repeated from prior year)

The Town's tax title listing includes nine (9) properties that are identified as "owner unknown." However, the map and parcel are clearly identified, so it appears that with some research the Town should be able to determine who owes these balances to the Town. In times when the Town should be aggressively attempting to collect all revenues in an effort to avoid financing costs, it is important to understand who owes what to the Town so it may enforce its collection rights efficiently.

Finding 4 – Lack of an Investment Policy (repeated from the prior year)

GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3* ("GASB 40"), was implemented by the Town during the fiscal year 2005. GASB 40 requires

enhanced disclosure with respect to the Town's cash holdings including, among other things, the policies the Town maintains with respect to the various risks associated with deposits and investments.

The Town does not maintain formal documented investment risk policies and accordingly the Financial Statements disclose the lack of such policies within the cash footnote. We recommend that the Town develop an investment policy statement that will help mitigate the inherent risk associated with investments while at the same time cause the removal of such deficiency from the financial statements.

*Finding 5 – Payroll Withholdings
(repeated from the prior year)*

Payroll withholdings are currently processed by the Office of the Town Accountant through journal entries. The Town should adopt a system whereby payroll withholdings are authorized through the Town warrant process and the Treasurer's receipt system. These amounts should be accounted for in the Town's agency funds.

*Finding 6 – Tax Collector
(repeated from the prior year)*

The Office of the Town Tax Collector is responsible for administering and collecting over 80% of the Town's revenue in any given year. As such it is important that the Collection process is not only accurate, but efficient. Currently, taxpayers either mail or make payments in person to the Town Hall.

In light of the significant technological advancements in collection procedures over the past decade, the Town's process is dated in many facets. In order to streamline the collection process, we recommend that the Town investigate the following payment processing options:

- 1) On-line billing through the Town's web site, with a direct update to the Collector's records.
- 2) Evaluate the many Tax Collection packages available that have scanning technology. The use of a bar code on the bill would allow for the handling of the bill once with a direct interface to the Collector's system.
- 3) The use of a lock box service with electronic interface capabilities.

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