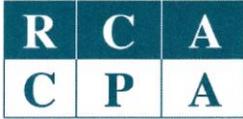


**TOWN OF PHILLIPSTON, MASSACHUSETTS**

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2012



## TRANSMITTAL LETTER

Board of Selectmen  
Town of Phillipston  
Phillipston, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Phillipston, Massachusetts, (the "Town") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal controls over financial reporting ("internal controls") 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 controls. Accordingly, we do not express an opinion on the effectiveness of the Town's internal controls.

A deficiency in internal controls 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 controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal controls that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal controls 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 Board of Selectman, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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*Roselli, Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
November 21, 2012

## **INTRODUCTION**

The Town has managed its financial operations well over the past several years despite the prolonged nation-wide recession that crippled the local and national economy during the majority of this time frame.

The Town ended the year with approximately \$0.8 million in unassigned fund balance. This represented over 25% of general fund expenditures and exemplified the consistency the Town maintains in managing its reserves. More specifically, unassigned fund balances have not been below 20% of expenditures, during any of the past 5 years. In doing so the Town has been able to satisfy budget flexibility metrics outlined by credit evaluation agencies. The agencies point to the ability to maintain adequate reserves to support budget fluctuations as an important attribute when evaluating credit.

The Town has accomplished this while still being able to (1) balance its budget on an annual basis, and (2) attend to its capital needs.

## **PRIOR YEAR ITEMS**

The following items were discussed in previous letters to Management. The completion of these items will be a significant step in improving internal controls and are summarized below:

### **A. Recommendation to Improve General Internal Controls**

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

1. pertain to the maintenance of accounting and financial records that accurately and fairly reflect the transactions and disposition of the Town's assets;
2. provide reasonable assurance that the Town's financial transactions are recorded as necessary to permit the preparation of periodic financial statements in accordance with accounting principles generally accepted in the United States of America; and
3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Town funds.

Due to the nature of the Town's operations, we recommend that the Town focus its efforts in developing policies and procedures surrounding:

- cash receipts, department turnovers, cash disbursements and the warrant process;
- reconciliation processes for cash and accounts receivable;
- employee reimbursement for out-of-pocket expenses such as travel;
- investments;
- procurement compliance; and
- a fraud policy

**B. Withholdings**

In the prior year, we determined that the Health Insurance Withholdings were out of balance by \$11,800 and consequently had an adverse impact on free cash. We suggested that corrections be made to this account and, furthermore, a reconciliation process be implemented to assure that the account remains in balance during the year.

Efforts were made to address this, and, subsequently, the AFLAC withholding variance was reduced to \$50 however a variance still exists in other related withholdings of about \$5,600 at June 30, 2012.

This should be addressed by the Treasurer as a priority item to correct during 2013.

**C. Deminimus Property Tax Assessments**

The Town assessed property taxes for each tax entity for which the Town has reported taxable personal property. A large number of personal property tax accounts have valuations less than \$2,000. At the current enacted property tax rates, these personal property tax accounts have annual assessments of approximately \$27. In many instances, the cost to assess, collect and follow-up on these deminimus 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 \$2,000 from being taxed. There are over 100 communities currently employing this practice, some for personal property as high as \$10,000. It is important to note that the elimination of these assessment would not reduce the amount of personal property tax assessments in any given tax year; the remaining property tax accounts would absorb these deminimus accounts, which will likely amount to an insignificant additional amount to these tax payers.

## **CURRENT YEAR ITEMS**

### **A. MSBA Reimbursements**

The Town underwent school renovations during the year that were qualifying MSBA reimbursement costs. The MSBA allows Towns to submit reimbursement requests monthly to avert cash flow issues. We discovered that the Town did not submit reimbursements in a timely manner to the MSBA and further discovered that this occurred because no individual had been assigned this responsibility. Typically, this is done by the School Business Office, but can also be done by either of the financial offices of Treasurer or Accountant.

We understand that the Town Accountant is now administering this process.

### **B. Inadequate Supporting Documentation**

The Town purchased a piece of land for \$180,000. While the amount was approved through a Town Meeting article, a purchase and sale was never delivered to the Town Accountant, but the amount was still disbursed.

The Town should take special care to assure that all supporting documentation is complete when processing disbursements.

### **C. Health Care Reform**

Chapter 69 of the Act of 2011 was signed into law by the Governor on July 12, 2011. This is an Act relative to Municipal Health Insurance. The Act amends Chapter 32B and as a result of its enactment, Section 26 will be added to Chapter 32B and reads as follows:

*An appropriate public authority of a political subdivision which has undertaken to provide health insurance coverage to its subscribers under this chapter shall conduct an enrollment audit not less than once every 2 years. The audit shall be completed in order to ensure that members are appropriately eligible for coverage.*

We suggest the Town review this amendment and put a plan in place to comply with such requirements. The intention of the audit is to cause the removal of subscribers who do not qualify to participate in the Town's health plan.

### **D. Title V Receivables**

The Town participates in the Commonwealth's Title V septic program. This benefits its citizens who need to make repairs to their septic systems by providing qualified residences with no interest loans.

The Town is obligated to pay back the Commonwealth for the "seed" money received to begin the program. This is paid back from the loan proceeds received from the borrowers.

It is important that at all times, the amounts in the Title V Fund, when added to the receivable balance equal the total amount the Town owes to the Commonwealth.

Presently, the Assessor's administer the balances for two loans that total approximately \$11,000. This balance does not agree to the general ledger and varies by about \$2,000. In addition, there is another amount on the general ledger that has a balance of \$18,641. There is no backup for this amount and it has been unchanged for several years.

The fund itself amounts to \$126,640 and the amount owed to the Commonwealth equals \$69,116. Based on this, the Town has at least about \$57,500 available to lend and should promote this to its citizens.

In addition, the Town Accountant should adjust the general ledger to the Assessor's balance for the two active loans and a determination should be made on the outstanding balance that has no support and no activity. If exhaustive research efforts have been made, the Town could consider writing these off.

**E. Collection Activity to be reviewed by collector**

We determined that tax collection activity slowed down considerably between 2012 and 2011, this was evidenced by a larger receivable balance and twice as many collections in the 60 day period subsequent to year-end in 2012 as in 2011. We also discovered evidence of lower enforcement activity, such as the penalties and interest being lower in the current year than in the previous year and, that none of the amounts budgeted for tax title costs had been used during the year.

While the Town is in good financial condition as indicated above, efficient collection practices are still good habits to participate in, especially in light of the sluggish economy.

We suggest that the Collector, establish policies that allow the most efficient collection of taxes and excise.

**F. Town Meeting Articles**

At the May 2011 Town Meeting, two articles (#32 and #33) were presented to and accepted by the voters. Neither of these articles, however, were included on the tax recap during 2012, and therefore, were not properly factored into the tax rate setting process for 2012. The amounts in question are \$10,000 for article 32 and \$4,850 for article 33. The Town should take better care in including all applicable items into the setting of the tax rate in future years.