

TOWN OF PHILLIPSTON, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2015



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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, 2015, 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 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

This communication is intended solely for the information and use of management, the Board of Selectmen, 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
Certified Public Accountants
Woburn, Massachusetts
May 31, 2016

INTRODUCTION

The Town continues to enjoy positive operations consistent with what many communities in Massachusetts are experiencing during this economic expansion. The Town ended the year with an unassigned fund balance of \$669,529 which was an increase of \$121,504 (22.1%) from the prior year balance of \$548,025. This balance represented 19.1% of the general fund expenditures and is well above the 8% average enjoyed by the State and the 15% tier 1 metric used by the credit agencies. This places the Town in a strong position with sufficient reserves that are able to withstand unexpected circumstances.

The Town also continues to make and sustain improvements to its operating system as management letter comments have been addressed; and only a handful remain.

We continue to congratulate management and its entire financial team for this strong performance.

The remainder of the report reflects informational items and findings and recommendations. We hope that Management will promptly address the comments in this letter if determined to be cost effective

INFORMATIONAL ITEM

Effect of Adoption of New Accounting Principal – Pensions

In fiscal year 2015, the Town and virtually all municipalities in the Commonwealth adopted new pension accounting standards. The new pension accounting standards required, for the first time, that the Town present its portion of the unfunded pension liability owed to its current and former employees in the government-wide financial statements. At June 30, 2015, the net pension liability for the Town was approximately \$1.0 million.

It is important to note that the new pension accounting standards do not affect the underlying regional pension system or its funding schedule. All Massachusetts pension systems are required by Massachusetts general law to be fully funded by June 30, 2040. The Worcester Regional Retirement System, which is the pension system the Town participates in, is currently 48% funded based on a December 31, 2014 actuarial study and actual pension plan net assets as of that date.

The new pension accounting standards will require that the Town become a more active participant in the audit of the Worcester Regional Retirement System. The Town can expect to have its retiree and employee census data tested on a rotational basis. It is therefore important that the Town promptly provide the requested documentation to the Worcester Regional Retirement System and its auditors in a timely manner so as to not delay this annual process of it and all other employer units of the retirement system

FINDINGS AND RECOMMENDATIONS

Tailings (repeated from prior year)

The Town maintains details of old outstanding checks issued to taxpayers for refunds, employees and vendors. MGL classifies checks outstanding more than one year as abandoned property. The Town has the ability under MGL 200A to turn over these checks over to the State Treasurer or advertise the unclaimed checks. Once the Town has complied with all legal requirements under MGL, any remaining unclaimed monies can be credited to the Town's Treasury and ultimately increase free cash. We recommend that the Town investigate this process and determine the appropriate course of action to take relative to its old outstanding checks. *Some of these checks date back to 2004.*

Town Clerk Bank Account

The Town Clerk, along with the Town Collector is the only municipal employee who may have a bank account that is not controlled by the Treasurer. In Phillipston both these officers maintain such accounts. *We understand that the Treasurer has begun to review these accounts as we suggested in the prior year and we are pleased with that oversight.* However, Town Clerk bank accounts are becoming obsolete in Massachusetts as many Towns have converted to quicker turnovers and the deposit of funds into the Treasurer's accounts. We suggest the Town evaluate the reason for keeping the Clerk's bank account open as these "offline" accounts only add additional risk to the cash handling process.

Collection Activity/Tax Titles (repeated from prior year)

In several of our prior letters to management, we discussed the trend of delinquent receivables increasing from year to year. This continued into fiscal year 2015. Property receivable balances increased approximately \$50,000 and now sit at over \$600,000 with over \$250,000 sitting in tax title. Receivable balances now exceed 21% of the levy balances; and this is causing a disproportionate level of commitment from the conforming taxpayers and has reached an unacceptable level.

We understand that enforcement action increased in the current year, as the Town increased the tax title budget, however we observed that demand letters are not sent timely and the 2014 delinquent taxes were still not in tax title at year-end which may have led to the increase.

It is difficult for a part-time office to perform this task, so we expect to see increases yearly until the Town places sufficient resources towards the process.

One option that an increasing number of municipalities who are short-staffed are now pursuing with enormous success is the selling, or assigning, of tax titles under Massachusetts General Law Chapter 60, Sections 2C and 52. We recommended this last year and continue to recommend it. Under this MGL, the Town is essentially transferring its interest to a private entity through an auction or bid process, with the amount outstanding as the minimum bid. The law gives the Town the flexibility to assign or keep whichever tax title accounts it chooses and may assign single tax titles or groups of tax titles. Assigning tax title accounts gives the Town the ability to immediately recover the taxes owed, avoid the cost and delay of collections and foreclosure actions; increase its property tax collection rates and return delinquent accounts to the current roles. We recommend the Town evaluate this tool for managing tax title collections and highly encourage Town financial management to contact other Town's that have administered tax titles utilizing this process.

Financial Policy and Procedure Manual (repeated from prior year)

As discussed for several years, the Town does not maintain a complete set of documented policies and procedures.

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

Since the Town has not conducted any sort of risk assessment in recent memory, the development of these policies and procedures will also allow the Town to assess controls in all its key financial areas of operation.

Capital Projects

The Town currently has a fund balance of \$3,335 in a stale capital project fund related to a dump truck. There was no activity in the account in the current year. The Town should repurpose this balance and use it to subsidize a portion of the purchase of a similar item in the future.

Police Details

The Police detail account had deficit balance of approximately \$14,000 at the end of the year. The amount is typically not that large so this is unusual. The Town should investigate this to determine if it is proper, and further should request the receivable detail from the Police Chief to determine if the outstanding balances are sufficient to cover the deficit.