

TOWN OF PHILLIPSTON, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2016

DRAFT



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, 2016, 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
Pending Approval

FINDINGS AND RECOMMENDATIONS

Liabilities

The Town maintains balances in certain of its liability accounts that have not changed in at least 5 years. One relates to a Tax Collector reserve balance which is not needed, two relate to deposits for projects that were most likely completed years ago and the final is tailings, which has not been completed by the Town in a number of years.

The Town did a great job in cleaning up the problems it had in its withholding balances and the errors that existed a few years ago. The Town should investigate these liabilities and make attempts to resolve them.

Personal Property and Motor Vehicle Receivable Balances

The Town currently carries personal property tax receivables dating back to 2007 and motor vehicle excise receivables dating back to 2001. The Town should analyze the detail supporting these balances and determine if the balances should be abated given the age and doubtfulness of collection at this point in time. The amounts are not material but they abating these would clean up the balance sheet significantly.

Title V Septic Loans

The Town makes loans to qualifying residents in accordance with the provisions of its Title V program. The Town does not maintain a current receivable detail for these septic loans. For a number of years we carried forward balances for the Town by person but in fiscal year 2016 with the conversion to the Softright accounting module this was not possible as payments were not identified by individual in the records. In addition, the balances in the records maintained by the Town Accountant were not reduced for payments made in 2016. We suggest the Town create a receivable listing for these loans and monitor these more efficiently.

Tailings (update from prior year)

As we discussed in the prior year the Town has not committed outstanding stale checks to tailings since at least 2004. Tailings are one of the liabilities discussed in the previous comment. The Town should close out the existing balance in the tailings account to miscellaneous income since these are at least 14 years old and begin to process stale outstanding checks through a clean account.

Presently the Town has \$7,610 in stale checks greater than one year old. 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 begin to clean up these stale checks.

Town Clerk Bank Account (update from the prior year)

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 (update from prior year)

In prior years we discussed the Town's challenges with collecting tax title and the disturbing trend of increasing delinquent tax balance. We are happy to report that enforcement action increased during fiscal 2016; this resulted in outstanding tax balances being reduced by about \$100,000. This was due to an increase in the tax title budget and more aggressive collection policies put in place by the Collector.

The Collector should strive to maintain this level of effort and we encourage the Town to support her in these efforts. It is difficult for a part-time office to perform this task so cooperation from the Town is vital.

Should the Town begin to fall behind again, an 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 (updated from prior year)

As discussed in management letters since 2008, the Town does not maintain a complete set of documented policies and procedures. Although efforts were undertaken to plan the process back in 2008 and 2009 those efforts stalled.

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 (updated from prior year)

The Town maintains a fund balance of \$3,335 in a stale capital project fund related to a dump truck. The Town can purchase an item for this dump truck with these funds or the Town can repurpose this balance and use it to subsidize a portion of the purchase of a similar item in the future such as a vehicle.

Police Details (updated from prior year)

The police detail deficit balance that existed at the end of 2015 was reduced from approximately \$14,000 to \$1,000 at the end of fiscal year 2016. It appears activity has been reduced in this area at year-end or collection efforts have increased. We still urge the Town Accountant to request receivable reports on a quarterly basis and reconcile these to the balances in the general ledger. The deficit in the general ledger should approximate the amount of receivables outstanding. In addition since the details are part of the Town payroll a crosscheck should be completed to the normal payroll in order to properly account for the hours worked.