

TOWN OF PHILLIPSTON
PHILLIPSTON, MASSACHUSETTS
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2008

**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 of Phillipston, Massachusetts, as of and for the year ended June 30, 2008, which collectively comprise the Town of Phillipston, Massachusetts' basic financial statements and have issued our report thereon dated October 31, 2008. 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 of Phillipston, Massachusetts' 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 of Phillipston's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Phillipston, Massachusetts' 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 of Phillipston, Massachusetts' 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 of Phillipston, Massachusetts' financial statements that is more than inconsequential will not be prevented or detected by the Town of Phillipston, Massachusetts' internal controls.

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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 of Phillipston, Massachusetts' internal control.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Phillipston, Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 & Associates
Certified Public Accountants
Woburn, Massachusetts
October 31, 2008

Introduction

Fiscal year 2008 is marked as a significant turn around year for the Town of Phillipston. A decade characterized as one with significant deficiencies in the Town's system of internal control appears to have finally begun to abate. The turn around can be directly related to two events:

- (1) In 2006, the Town's Board of Selectmen petitioned the Department of Revenue's Division of Local Service to perform a Financial Management Review of the Town's operations. This review was concluded in the summer of 2007.
- (2) The Town appointed an individual with significant municipal experience as Town Accountant, to oversee all the financial aspects of the Town's accounting system. This appointment was also made in the summer of 2007.

Resultant of (1) above was a 24 page document which summarized severe findings and recommendations for improvement. Resultant of (2) above was the diligent implementation of many of these recommendations that consequently has led to a much more efficient and accurate system of control.

A number of these recommendations were implemented at the beginning of fiscal 2008 prior to the 2007 audit being completed. These are listed in the prior year management letter and will not be repeated here.

The following prior year items have been corrected since the issuance of the 2007 management letter:

- a. Cash reconciliations – a formal cash reconciliation process has been implemented and is currently in place. Timely adjustments when necessary are made to the records as a result of this process. As of June 30, 2008 there were no variances between the Treasurer's cash and the Town Accountant's cash.
- b. Fixed assets – with the inclusion of infrastructure assets, the Town is now in full compliance with fixed asset accounting requirements.
- c. Cash management – the Town no longer prepays items and has implemented a practice of aging invoices at least two weeks prior to payment.
- d. Performance bonds – the Town Accountant has made the necessary adjustments to the accounting records to properly account for performance bonds.
- e. Debt payments – maturities of debt are now made in the correct fiscal year.
- f. Electronic wires – all Town disbursements including electronic wires are now processed through the warrant process.
- g. Tax rate setting process – The Town's balance sheet, schedule A, audit and Tax recapitulation sheet are now all performed in a timely manner. As such it accommodates the quarterly tax billing process presently in place and significantly enhances cash flow to the community.

- h. Outstanding receivable reconciliations – a formal accounts receivable reconciliation process has been implemented and is currently in place. Timely adjustments when necessary are made to the records as a result of this process. As of June 30, 2008 minor variances that existed were for identifiable reasons and properly identified as reconciling items.

In the prior year management letter, we indicated that most turn around initiatives take approximately 3 years to fully implement. The Town is presently entering its 3rd year of such endeavor and we are happy to report that the Town appears to be well on its way to accomplishing its goals in that regard. In addition, the Town has managed to accumulate funds in reserve more specifically its Stabilization balance has over \$300,000 in accumulated funds at June 30, 2008. This is excellent considering the size and budget of the Town.

We would hope that the Town maintains the same vigilante attitude in addressing its remaining findings identified in the prior year as it has done in resolving findings to date.

TAX TITLE (repeated from prior year)

Presently the Town's tax title listing includes nine properties that are identified as "owner unknown". The map and parcel are clearly identified, so it appears that with some research it should be easy 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.

SEPTIC LOANS (repeated from prior year)

The Town makes loans to qualifying residents in accordance with the provisions of its Title V program. Presently, the records associated with the loans made are unorganized. When reviewing the loans for the current audit, the listing of outstanding balances was provided by the previous auditor in handwritten form because the Town did not have organized records. We updated these electronically, and have been rolling forward these amounts, however the Town should administer this process on its own. In addition, it appears some of these loans may be in default. We suggest the Town set up a more efficient recording process to adequately monitor its septic loan activity.

INVESTMENT POLICY (repeated from previous year)

GASB 40 was implemented by the Town during the year ended June 30, 2005. The Statement requires much more disclosure with respect to the Town's cash holdings than what has been required in the past. Required disclosures include, amongst other things, the need to communicate what policies the Town maintains with respect to the various risks associated with deposits and investments. Presently 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 suggest 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

PAYROLL WITHHOLDINGS (repeated from prior year)

Payroll withholdings are presently processed by the Town Accountant's office via journal entries. The Town should switch to a system whereby withholdings are processed through the warrant and the Treasurer's receipt system and accounted for in the Agency Funds. This will provide more control over the disbursement.

ORGANIZATIONAL POLICIES (repeated from prior year)

In light of the fact that the Town is undergoing numerous organizational and economic changes, the Town should begin to consider improvements to its overall organizational structure and flow or at the very least document the current process in an updated employee handbook for distribution to all Town employees. Such a handbook could delineate but not be limited to the following:

- (1) Personnel policies such as hiring and firing of employees.
- (2) Background checks.
- (3) Lines of responsibility and delegation and to whom each employee reports to.
- (4) Minimal expectation levels for employees.
- (5) Vacation and sick policies.
- (6) Fringe benefit qualifications.
- (7) Truancy policies.
- (8) Timesheet policies.

We understand such a document is currently in process and may be available shortly.

TAX COLLECTOR (repeated from the previous year)

The Tax Collector is one of the most important positions at Town Hall. The Department 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 accurate, adequate and extremely efficient. Presently, taxpayers either mail their bills to the Town hall or come to the Town hall to pay directly

In light of the significant technological advancements to collection procedures in the past decade, the process in many facets is outdated. In order to economize the process and create a more streamlined system, we suggest the department review the following options for processing:

- (1) On-line billing through the Town's web site, with a direct update to the Collector's records. (This will reduce the through put of traffic to Town Hall).
- (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.