

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

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TOWN OF SOUTHBOROUGH, MASSACHUSETTS

Management Letter

Year Ended June 30, 2021

TOWN OF SOUTHBOROUGH, MASSACHUSETTS

MANAGEMENT LETTER

**FOR THE YEAR ENDED
JUNE 30, 2021**

Table of Contents

	<u>Page(s)</u>
Transmittal Letter.....	1 - 2
Informational Items.....	3 - 4
General Findings and Recommendations	5



TRANSMITTAL LETTER

To the Honorable Members of the Board of Selectmen
Town of Southborough, Massachusetts

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Southborough, Massachusetts (the “Town”), as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated March 1, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town’s internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

A *deficiency in internal control* 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies that are categorized as a significant deficiency or material weakness however, our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town’s 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
March 1, 2022

INFORMATIONAL ITEMS

Statement on Auditing Standards No. 115 – Audit Communications

The American Institute of Certified Public Accountants (“AICPA”) several years ago issued Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (“SAS 115”). SAS 115 establishes standards and provides guidance on communicating matters related to an entity’s internal control over financial reporting identified in an audit of financial statements. In particular, SAS 115 provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements in the following order:

1. Control deficiency
2. Significant deficiency
3. Material weakness

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance. We did not report any such findings in this report.

Control deficiencies are not required to be communicated; however, the Town has requested that we also report that type of deficiency in this report in order for the Town to strengthen its internal controls and operating efficiency and for full transparency. These are included under the caption general findings and recommendations.

Network Security

We continue to remind our clients to remain vigilant in the fight against cybercrime. Municipal entities have and continue to be targets for cyber fraud, phishing schemes, ransomware, etc.

This has become very important as the recent pandemic has opened up opportunities to work remotely, and while this is efficient, the equipment used to facilitate these processes could also become targets if not protected adequately.

While the Town has a very strong and robust security system in place, we recommend that the Town continue to monitor the changing cybersecurity landscape and maintain its security systems and employee training accordingly.

Fraud Risk Mitigation

Fraud prevention is an area that should be under ongoing evaluation. Evaluating cash processes of cash handling areas annually through effective risk assessment and proper safeguards is an effective control to protect the Town from threats associated with fraud. We will discuss this with management annually through our risk assessment procedures to assure that management is monitoring this critical aspect of government.

Through our discussions we have learned that management conducts many of its own internal processes to prevent and detect fraud. Periodically reevaluating departmental cash handling procedures to make sure they are adequate and effective is an ongoing recommendation.

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 GASB pronouncements

The GASB has approved a new pronouncement that will go into effect in fiscal year 2022.

GASB 87 which requires the Town to revise the manner in which it accounts for its operating leases goes into effect in fiscal year 2022. Previously, governmental entities reported their leases similarly to how private entities reported leases under ASC 840. While finance leases would be capitalized on the balance sheet, operating leases would be reported in the footnotes. However, GASB 87 requires that all operating leases now be accounted for as finance leases. As a result, leases previously classified as operating leases will not only be capitalized on the statement of net position, but also be reported differently in the statement of activities.

Long-term obligations

Recent accounting standards have brought to light more than ever those hidden liabilities that are true long-term obligations of the Town.

More specifically, OPEB and Pension liabilities are now required under GASBs 67, 68, 74 and 75 to be recorded in the Town's financial statements.

With respect to OPEB, the Town has created a Trust and has been contributing \$250,000 annually towards the unfunded liability. Despite this, the unfunded liability sits at \$47.1 million (about 95% unfunded), an increase of \$15.5 million over the prior year. This was primarily due to a decrease in discount rate and increase in health-care trend rate. This is not unusual as multiple communities across the Commonwealth continue to trail in this area and will ultimately need to adopt more aggressive contribution policies in future years when the pension becomes fully funded.

With respect to its pension funding, the Town is a member of the Worcester County Contributory Retirement System (WCCRS) along with numerous other towns and districts. With a 50% funding ratio, it is near the lowest funded pension system in the State and well below the State average of 65.6% funding ratio.

In light of Massachusetts General Laws to fully fund this liability no later than 2040 and with a current funding schedule of 2035 the Town can expect to see its pension assessment rise rapidly.

The Town should begin to factor increases as discussed above into its long-term financial plans.

American Rescue Plan Act

Recently, the Town was awarded a significant grant under the American Rescue Plan Act, (ARPA). Because the Town's award is well under the \$10 million annual exemption limit for flexible spending the guidelines supporting this grant allow the Town to spend the funds on essentially any government service.

We are observing few communities using a portion of these funds to balance their budgets as opposed to one-time items such as emergency snow overruns and capital expenditures. Very similar to prudent uses of free cash, we are suggesting that communities use caution when evaluating the use of these funds. Avoiding structural budget deficits by not using non-recurring revenue in its budget process should be strongly considered.

GENERAL FINDINGS AND RECOMMENDATIONS

Stagnant Balances

Special Revenue

In recent years, the Department of Revenue has advocated a process whereby it's a best practice for Towns to review accounts that appear to have gone stale and sit on the book for many years. Many of these accounts become forgotten over the years as individuals in charge of them retire or posting errors occur and are never corrected.

We reviewed the Town's special revenue accounts and determined that 21 accounts that have an aggregate balance of about \$112,000 did not have any activity during the year. These accounts are made up of old donation, gift and grant accounts. We suggest the Town undertake a process of sitting down with the department heads who are in charge of these accounts and determine if a spending plan can be adopted. In the instance where it appears a coding error has occurred the funds should be diverted back to the general fund.

Capital Projects

The Town maintains six capital projects accounts with approximately \$150,000 in aggregate balances that appear stale. Under MGL, the Town can repurpose these balances to similar projects or use up to \$50,000 per year to subsidize debt payments.