

**ROSELLI, CLARK & ASSOCIATES**  
Certified Public Accountants



**TOWN OF SOUTHBOROUGH, MASSACHUSETTS**

Management Letter

Year Ended June 30, 2022

**TOWN OF SOUTHBOROUGH, MASSACHUSETTS**

**MANAGEMENT LETTER**

**FOR THE YEAR ENDED  
JUNE 30, 2022**

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## 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, 2022 and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated January 13, 2023.

### **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  
January 13, 2023

## **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 (annual reminder)**

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 (annual reminder)**

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.

### **Long-term obligations (update)**

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). This was flat with the prior year, primarily due to challenging market conditions that resulted in almost \$400,000 in investment losses. (The Trust has still accumulated nearly \$500,000 in investment income over the last 6 years despite these recent losses.) 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 56% funding ratio, it is near the lowest funded pension system in the State and well below the State average of 70.5% 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.

### **Investment Income**

At year-end, the Town carried over \$17.4 million in cash and equivalents, yet yielded less than \$50,000 in investment income due to the continued market conditions that existed with respect to savings accounts in the prior several years. Recent actions by the Federal Oversight Monetary Committee to raise the rate on borrowings significantly have begun to have a similar impact on investment yields. Many short-term instruments are currently approaching 5% yields and are liquid and legal borrowings in Massachusetts.

This comment serves as an alert that investment strategies not available to the Town in at least 20 years are beginning to present themselves and could be financially beneficial. Each \$1 million invested could return over \$40,000, using an effective safe and liquid strategy with some cash forecasting to determine excess investible funds. The Town should discuss these options with its financial asset manager.

## **GENERAL FINDINGS AND RECOMMENDATIONS**

### **Assessor Overlay Balances**

The Town's allowance for abatement balances in aggregate totaled \$750,475 as of June 30, 2022. The amounts related to 2021 and prior were \$443,992. There are minimal (about \$2,900) outstanding receivable balances prior to 2021 levy since these have all been transferred to tax title and the Assessor communicate to us via written correspondence that about \$150,000 in exposure exists at the Appellate Tax Board. As a result, it appears that there is a significant excess in the allowance for abatement accounts that may be released by the Assessors.

### **Ambulance Receivables**

The Town uses a third-party service provider to bill and collect fees related to its ambulance services. As part of its service, reports are provided monthly that include amounts collected, amounts outstanding with an aging and amounts contractually written off.

We observed that the amount reported for collections in the general ledger is \$17,725 greater than the amounts in the service provider reports. This could be due to many items that should be identified as reconciling items.

We suggest that a policy is implemented that requires all information included in the service provider reports to be reconciled to the amount recorded in the Town's general ledger.

In addition, the Town's outstanding ambulance receivable amounts continue to increase from year to year. Currently, the outstanding balance amount of \$636,494 is about as large as the net amount collected. In addition, approximately 65% of the outstanding amount is greater than 120 days old.

The Fire Department should review its current abatement policy and determine if the process should be revised as many receivables are probably no longer collectible. A list should be prepared, without personal information disclosed (just numerical identification) and evaluated between the Fire Chief and Finance Director. *We understand abatements were made in subsequent to year-end and the process will include an annual evaluation.*

### **Stagnant Balances**

#### **Special Revenue (update from prior year)**

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 13 accounts that have an aggregate balance of about \$200,000 did not have any activity during the year. These accounts are made up of old donation, gift and grant accounts. One is an old bond premium account that probably should have either been used or amortized to income.

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.

We observed the Town is beginning to use stale capital project accounts in the budget process.