

TOWN OF WESTMINSTER, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2013

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Board of Selectmen
Town of Westminster
Westminster, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Westminster, Massachusetts, (the "Town") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) 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 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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses could exist that have gone undetected.

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

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 27, 2013

I. OVERVIEW

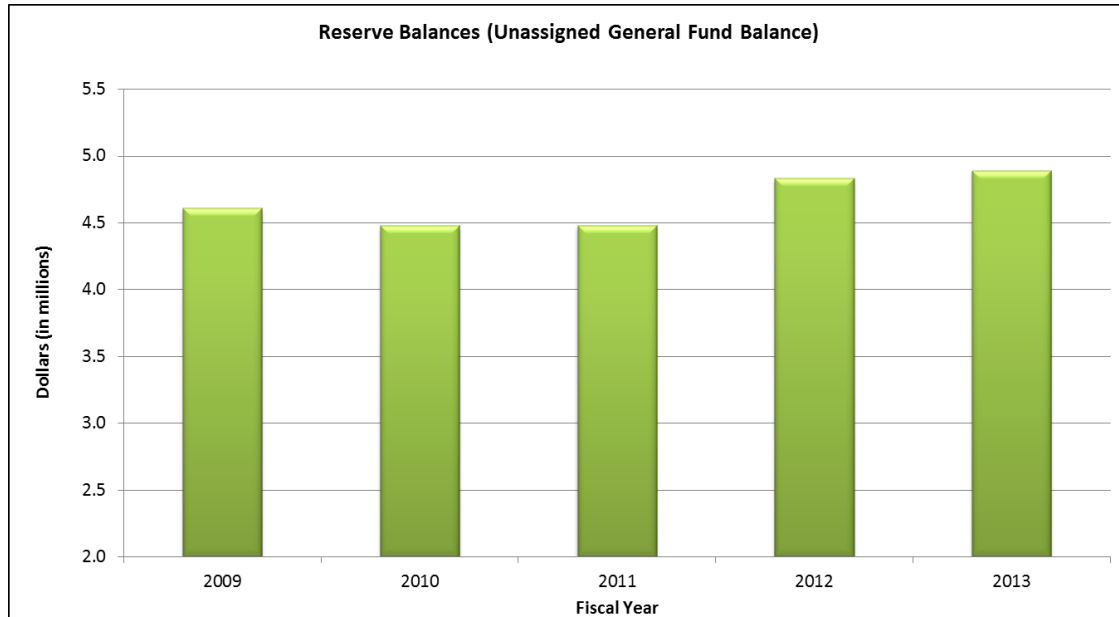
Financially speaking, 2013 was a year of mixed signals for the United States and Massachusetts' economies. Unemployment showed some improvement, but still remained above historic levels; housing, construction and other indicators began to trend positive and recently, consumer confidence levels increased to a five year high. Despite this, on-going threats of fiscal cliff and sequestration as well as other available data show that the economy has yet to completely emerge from the downturn that plagued the area from 2009 - 2012.

This is a signal that Towns must remain cautious while preparing their budgets. The fine balance of maintaining both reserves to satisfy rating metrics and an adequate level of services has become an increasingly complicated annual task. Many towns have conceded to the pressure of maintaining services in lieu of building reserves and thus are facing the consequences of those decisions including downgrades to their credit ratings. The Town has been equally challenged; however, financial results would indicate financial operations have been well managed despite this prolonged test of fiscal condition.

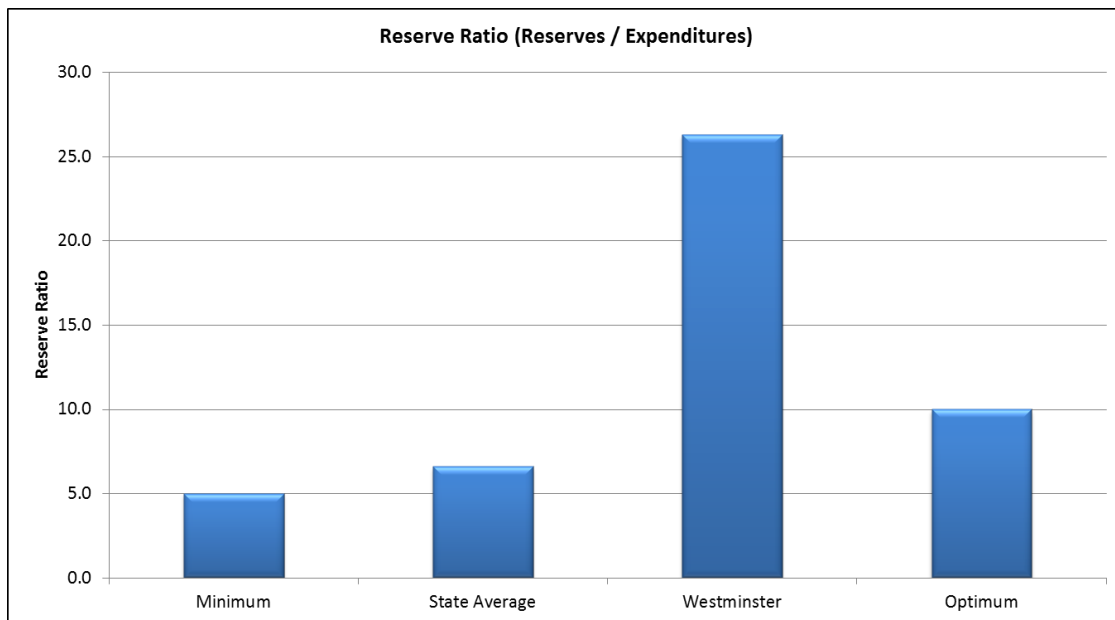
The Town ended the year with approximately \$4.9 million as the unassigned general fund balance. This is a slight increase from the prior year amount of about \$4.8 million; and indicates strong management control of finances as the revenues approximated expenditures, which is as anticipated given that the Town operates the General Fund under a balanced budget. The fiscal year 2013 unassigned general fund balance represents about 26.3% of General Fund expenditures and, demonstrates a solid financial position for the Town.

Targeting a 10% reserve and being able to exceed this important level while still being able to (1) balance its budget on an annual basis, (2) maintain excess levy capacity, and (3) attend to its capital needs are the signs of stability that will garner favorable results when the Town undergoes its annual credit evaluation

The following chart highlights the unassigned fund balance (undesignated general fund balance plus stabilization) trends over the past 5 years:



Municipalities in Massachusetts are encouraged by debt advisors to strive to attempt to achieve an aggregate reserve balance of 10% of budget as a financial operating goal. This is the optimum levels of reserves bond rating agencies seek when evaluating a community's stability. It is important for the Town to remain in this position so that it can maintain its bond rating as the Town continues to strategically plan out its capital improvement plan and potentially increase its borrowing needs. As can be seen on the following chart, the Town is well above the optimum and state average levels which indicate that the Town is significantly in a stronger financial position than the average municipality.



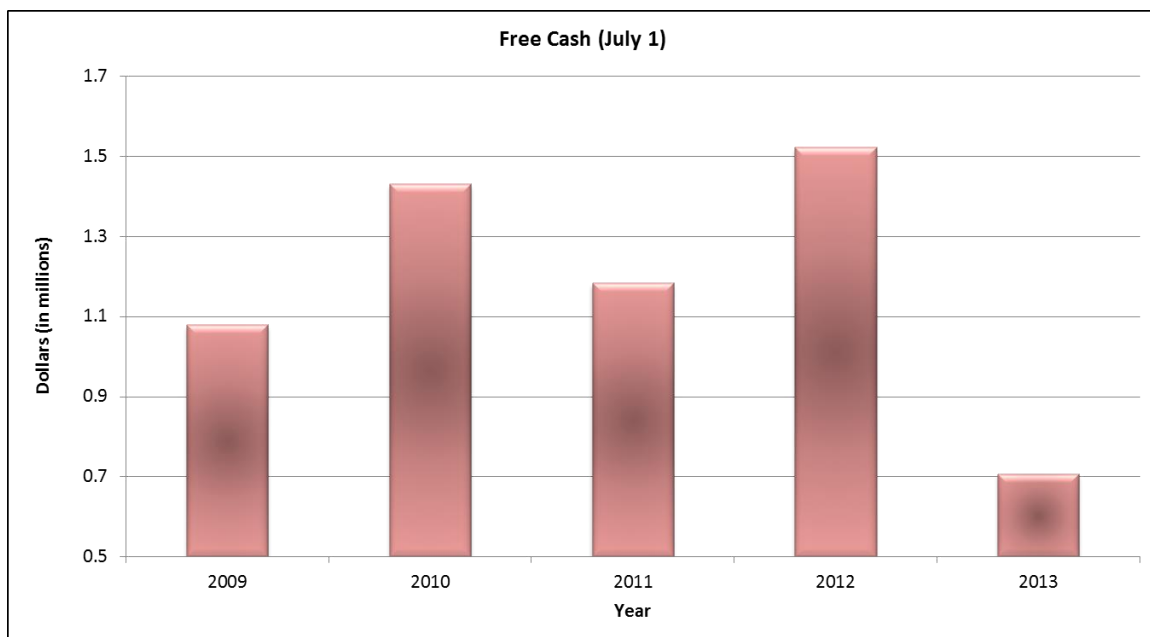
The Town's bond rating is important. Maximizing the Town's bond rating, will minimize the cost of future borrowing for the Town.

Therefore, the Town should continue to strive towards maintaining and/or obtaining a higher bond rating thereby enhancing investment appeal. We encourage the Town to include the following items as it plans this process:

1. Make efforts to conserve free cash (i.e. avoid using free cash in the operating budget, if possible).
2. Take aggressive efforts to increase free cash and stabilization balances.
 - a. Continue to forecast revenues conservatively.
 - b. Implement efforts to enhance revenue. Aggressive tax collections through tax title and review current fees and departmental charges.
 - c. Continue to monitor budget and aggressively turn back funds to surplus.
3. Prepare a 5 year financial projection and continuously update it.
4. Adopt financial policies that direct the use, conservation and establishment of minimum balances for free cash and stabilization.
5. Evaluate increased funding for OPEB as part of its management of long-term liabilities.

Other financial amounts can also serve as a sign of a municipality's financial health. Amounts that are available but waiting for appropriation can provide a community with the flexibility to maintain service levels or provide funding for capital purchases without the need of increasing tax rates or reducing departmental budgets. Relative to this area, we would note that the Town was able to increase the Stabilization fund balance of over \$3.0 million by 27% during fiscal year 2013.

As noted below, the Town's free cash dropped significantly at the end of fiscal year 2013. A portion of this reduction is the result of the Town having allocated \$325,000 of the previous year's free cash to lower the fiscal year 2013 tax rate which is effectively a permanent reduction to the surplus; yet, \$1.0 million of the reduction was actually an allocation to the Town's stabilization funds to be held in reserve for future purposes as needed, and therefore remains with the Town. In essence, while free cash is lower, the Town was able to satisfactorily maintain its overall reserves health as seen from the Unreserved Balances chart on page 2.



It is important to note also, that the Town maintains approximately \$0.5 million in an ambulance revolving account, and while this doesn't technically count as a reserve for credit purposes, it is in fact an available funding source for related operations.

These results are the type of fiscal management action showing the Town's ability to positively react and sustain services during times of economic pressures. This should be viewed positively by the S&P bond rating agency as the Town undergoes a rate evaluation in fiscal year 2014.

This letter to management is intended to provide the Town and its management with recommendations for improvement in accounting and financial operations and informational items. The Town should review these recommendations and informational items, and, if determined to be cost-effective, implement these improvements.

II. INFORMATIONAL ITEMS

Statement on Auditing Standards No. 115 – Audit Communications

The American Institute of Certified Public Accountants (“AICPA”) in 2009 issued Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (“SAS 115”). SAS 115 establishes new 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. Deficiency in internal control
2. Significant deficiency
3. Material weakness

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance. *Deficiencies in internal control* are not required to be communicated; however, we have chosen to also report that type of deficiency in this report.

We did not deem any of the findings in this report to be categorized as (2) or (3) above.

Financial Policies and Procedures Manual

In the prior year, we discussed the need for the Town to formally document policies over major transactions into a comprehensive manual. While the Town follows policies and procedures generally prescribed by MGL, the inclusion of these with policies specific to the Town in one comprehensive manual would be beneficial to the more efficient adherence of these policies by Town employees.

We are pleased to understand that the Town has drafted financial policies related to: debt management, free cash and reserves, and capital planning and expects to formally adopt them in the near future. Thereafter, the Town intends to assess the next highest areas of need for financial policies and begin work on drafting further policies as time allows.

Fraud and Internal Control Over Operations

In the past we recommended the Town begin cycling audits of its departments as part of an overall increase in risk assessment. Those could be performed internally, or as part of the annual audit.

The Town presently utilizes a combination of both as the Town Accountant conducts spot checks of various departments and annually the Town directs the audit firm to review department operations at a higher scope.

As part of the annual audit for fiscal year 2013, the Library Department was reviewed at a more comprehensive level and is discussed in a further section in this report.

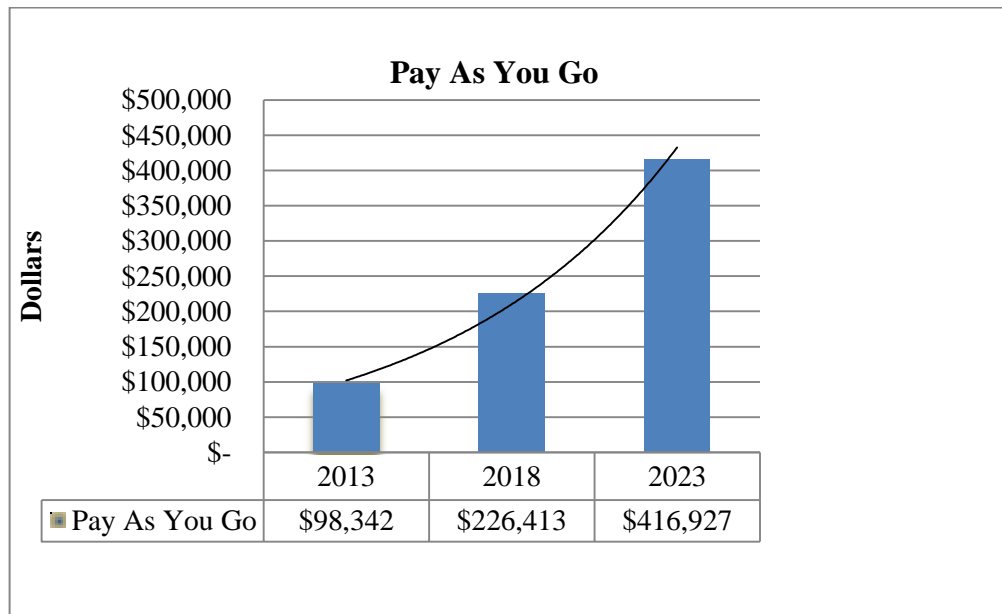
GASB 45: Other Postemployment Benefits

Other Post-Employment Benefits (OPEB) has been discussed in significant detail in prior year management letters. Please refer to these letters. The Town's latest actuarial study places the long-term obligation at approximately \$6.8 million. The next valuation is due for next year's audit of fiscal year 2014.

S&P has begun to assign an allocation of the credit evaluation to the management of long-term liabilities. OPEB qualifies as such an item. This is a reminder to Management that as part of its long-term planning, the Town should begin to reflect the effects of OPEB into its financial plan. Other communities, although while still in the minority, are becoming more active in this regard.

The Town has yet to adopt MGL c. 32B s 20, which would allow the Town to establish an OPEB Trust Fund. This enabling legislation has been specifically set up by the State Legislature and was recently amended to allow towns to legally begin reserving funds for future OPEB costs. However, the Town has acknowledged the importance of generating reserve funds to mitigate the financial impacts OPEB will have on future years, and as of June 30, 2013, the Town had accumulated nearly \$190,000 within a special purpose stabilization fund for OPEB. We applaud these initial steps and would encourage the Town to adopt the trust fund legislation and continue to identify available funds that can be consistently allocated towards OPEB on an annual basis.

The following graph illustrates the challenges the Town will be facing relative to actuarially, anticipated annual costs over the next ten years:



Therefore, the issuance of GASB 45 is more than a financial reporting requirement. Its issuance reminds towns like Westminster that it has future obligations that may materially affect the Town.

Municipal Data Breaches

Within the past few years, there has been an alarming increase in the number of intrusions into municipal networks throughout the United States. These breaches, many of which targeted relatively small towns, have resulted in the unauthorized access of resident, student and employee data and the theft of several hundred thousand dollars. Given that most cities and towns lack a structured information security program their systems are increasingly at risk to this type of event. And while not a municipality, the most recent data security breach at a major retail store chain in recent months has at the very least once again brought to the forefront the extent to which hackers can and will go, and that even entities that are aware of their exposure risk may be unable to fully prevent the loss of data in such attacks.

Recently, a select number of highly qualified companies have emerged that conduct “Data Security Audits” for municipal entities. The audit is a comprehensive examination of the administrative, technical and physical security controls that a municipality has implemented to protect personal information. The resulting audit report identifies each condition that exposes the municipality to potential unauthorized access and offers practical recommendations to remediate these conditions.

III. FINDINGS AND RECOMMENDATIONS

New Water Treatment Facility Debt

The City of Fitchburg (the “City”) currently owns and operates within its borders, certain water treatment facilities that are utilized by the Town as part of providing water distributions services to the residents of Westminster. Accordingly, based on an understanding between the City and the Town, a portion of capital costs (and resulting debt funding those costs) for construction of such facilities are to be borne by both entities.

It was identified during the audit for fiscal year 2013, that in the previous fiscal year, the City had completed construction on a water treatment facility for which the Town was 8.286% responsible for the construction and related debt interest expenses. The Town was required to begin making its portion of debt service payments on this project in fiscal year 2013, which it did. Upon inquiry, it was determined that the Treasurer and Accounting Offices had never been informed of this debt or the Town’s future financial obligations out of the Water Fund. The Water Department did receive the invoices for reimbursement of debt to the City and did process them for payments out of the Department’s funds which are the proper handling of such transactions.

As a result, there would appear to be a certain amount of confusion within the Town relative to these “joint venture” type activities with the City. Specifically, does the Town have any say in these projects undertaken by the City; who or what board within the Town is authorized to accept and approve such agreements on behalf of the Town (or is no authorization required); is this a project that should have received Town Meeting approval given that it was committing the Town to debt service commitments for the 10 years; and why was the financial offices of the Town not properly informed of such a transaction so that financial statement, and DOR and SEC regulatory reporting could be presented accurately and completely.

We would encourage the Town to internally review these types of transactions that periodically occur and then develop a written set of policies that can be distributed to all applicable Town departments, so as to prevent this inappropriate oversight from occurring in the future.

Capital Project Fund Balances

The Town is maintaining within its general ledger, Capital Project Funds that appear to relate to projects that have been concluded, as no transactions were processed through them in fiscal year 2013 or 2012. Yet, these projects have remaining equity balances within them; accordingly, their Capital Project Fund balances should be closed out with any of the remaining funds transferred to other accounts as allowed under the law.

If a capital project was funded with local receipts, such amounts can be directly transferred to the General Fund and closed out to free cash. However, if the capital project was funded with monies from a debt issuance, the Town is likely to be legally required to re-appropriate those funds to a similar type capital project for expenditure. Bond-holding investors funded the Town with the understanding that their money would be utilized in specific ways and purposes, and the Town remains committed to those restrictions even after the project is completed. We suggest the Town inquire of its options with its debt advisor, in any such instances.

Police Detail Outstanding Balance Reports (repeated from prior year)

In order to properly verify outstanding police detail balances on the general ledger, it is required that a listing is provided that is complete, accurate and reconciled to the general ledger balance. For at least the past 3 years, such a listing could not be provided. It is important that the Town determine why the listing is not complete and available and put in place the procedures to correct this.

Unrecorded Unrealized Gains and Losses On Investments (repeated from prior year)

GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, among other things requires governmental entities to record their investments at their fair value as opposed to their historical cost. While GASB No. 31 is a governmental accounting requirement, many municipalities in Massachusetts continue to record their investments at their historical carrying value and analyze the fluctuations at year end; material fluctuations tend to be recorded in the audited financial statements and not in the underlying accounting records of the towns.

In fiscal year 2011, the DOR issued a letter to all Massachusetts municipalities setting forth the DOR's requirements for the certification of free cash and the presentation of financial information. This letter clearly indicated that investment funds must be reported at fair value in accordance with GASB No. 31.

Currently, the Town records its investments at historical cost. For fiscal year 2013, the unrecorded gain and loss on investments were not material to the financial statements. We recommend that at each year end, at a minimum, the Town analyze the difference between the recorded value of its investments and the fair value of its investments as reported by the financial institutions managing these investments. The difference between the recorded value in the Town's accounting system and the reported fair value should be recorded as an unrealized gain or loss in the Town's accounting records.

IV. DEPARTMENTAL REVIEW

FORBUSH MEMORIAL LIBRARY

Overview

The mission of the Forbush Memorial Library (the Library) is to serve the Town of Westminster as a center for education, culture, recreation, and information through its collection of materials, availability of technological resources both at the library and from home, and access to programming and community gathering space for people of all ages.

The Library is located in the center of Town and operates from a main facility with no branches. In 1997, the Library underwent a major renovation significantly increasing its size. The facility also displays an elaborate collection of artwork that attracts visitors and groups throughout the year.

The Library is governed by a 5 member elected Board of Trustees that meets monthly and acts as a policy setting Board. These policies are enforced by a Library Director.

The following represent Library expenditures charged directly to the Library operating budget in the general fund during fiscal 2013:

Wages	\$ 202,547
Electricity	10,790
Gas	11,541
Maintenance	3,962
Contractual services	11,307
Postage	310
Telephone	417
Office supplies	3,988
Books and videos	59,600
Dues and subscriptions	460
Technology	5,956
Other purchased services	<u>6,286</u>
	<u>\$ 317,164</u>

In addition to these expenditures, the Library also incurs indirect charges absorbed by other Town operating budgets such as snow removal, trash removal, health insurance, retirement benefits, water and sewer services, debt service, property insurance, phone service and other miscellaneous charges bringing the overall actual cost of the operation to well over \$400,000.

Library revenues are minimal; less than \$5,000 from photocopy charges, and book/video late fines. Therefore the majority of the expenditures are subsidized from taxation. This is typical of most libraries in the Commonwealth.

In addition to the above activity the Library receives gifts from donors and a grant from the Commonwealth which it uses to subsidize other operating costs. This activity amounts to less than \$15,000 annually.

Internal Controls

The Library's controls are very well thought out and effective. These include:

1. All priceless art and books are inventoried periodically and compared to perpetual lists.
2. Insurance is maintained protecting all priceless art from theft or loss.
3. The building is tightly secured with a state of the art alarm system.
4. Building use policy is outstanding as no non-employees are allowed on the premises without a Library employee present.
5. A key log is maintained delineating anyone who has access to the building.
6. All employees have their own alarm bypass code and when they enter the building a log of this is electronically created and available for review.
7. All employees are required to pass a CORI background check.
8. All employees are required to pass an ethic's examination.
9. Money is reconciled daily to the cash recorded in the register.
10. All money and checks are maintained in a safe.
11. Cash is turned over in accordance with the Treasurer's cash turnover policy. There is seldom more than \$100 on the premises at any time.
12. Names of individuals that have outstanding balances are tagged electronically and may not check out any books or videos until the balances are paid in full.
13. Patrons of any library in the area that uses the C/W Mar's system are also electronically tagged if they have outstanding balances at any library and may not check out books and videos until these fines are paid in full.
14. Purchases are made in accordance with the Town purchasing policies and Chapter 30B.
15. Expenditure reconciliations are performed monthly with the Town Accountant.

Recommendations

While the Library's internal controls for the most part are very effective, we determined that there are certain areas that the Library should evaluate and attempt to improve and include the following:

1. Currently, funds are turned over to the Town Hall weekly, in accordance with the Treasurer's turnover policy. However, the Library does not reconcile its revenue records to those maintained by the Town Accountant. We suggest this is added as a control to ensure that all money is properly deposited in the bank and classified properly as Library revenue.

2. The Library presently maintains an electronic database of all patrons who have outstanding balances. It appears that the system has many valuable features however it does not appear that the office personnel are familiar with all key features. We asked the Office Manager to produce a report for all amounts currently owed to the Library and this task could not be performed. Such a report would be very valuable to the Library, since the database includes emails and phone numbers and would facilitate a much easier follow-up of outstanding balances for collection. We suggest the Office Manager contact its software support personnel and determine how to run such a report. Once produced, we suggest that this report is run monthly and follow-up of overdue accounts are made at the same time. In order to save on postage, this could be done through email and phone.
3. The Library has a "Friends of the Library" organization that is used for fund raising activities during the year. Approximately \$5,000 is raised and used for miscellaneous supplies and events such as speakers, readers etc. We were made aware that the Friends of the Library do not have an active Board and have not filed tax returns or other documentation with the IRS or Department of Revenue in a few years. The organization has a single Treasurer with a single bank account and no oversight over cash received. In fact, it was disclosed to us that the Friends of the Library are no longer recognized as an organization in the eyes of these government agencies.

The Friends of the Library's obligations and legal requirements are not the responsibility of the Town however the Library should ensure that since it is receiving donations from this organization that it is a legally functioning organization especially in light of the fact that much of the fund raising is done at the Library facility and the donations are advertised as charitable.