



**TOWN OF WESTMINSTER, MASSACHUSETTS**

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2012

*Table of Contents*

Transmittal letter.....	1
Overview .....	2 - 4
Informational Items:	
GASB 45 .....	5
Financial Policies and Procedures Manual .....	5
Fraud and Internal Control.....	5
Findings and Comments:	
Police Detail Outstanding Balance Report .....	6
Unrecorded Unrealized Gains and Losses on Investments.....	6
Vehicle trade-in.....	6 – 7
Purchase Orders.....	7
Departmental Reviews:	
Animal Control Officer.....	8
Council on Aging.....	9
Board of Health.....	10 - 11

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, 2012, 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.

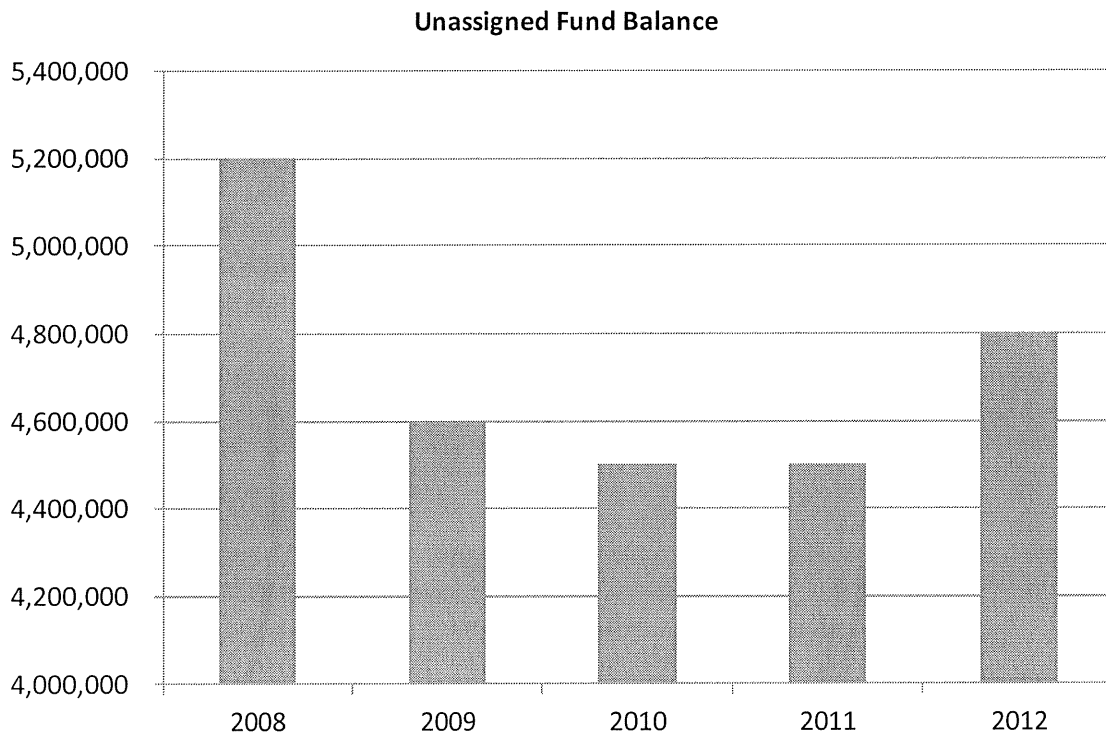
Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
October 24, 2012

## I. OVERVIEW

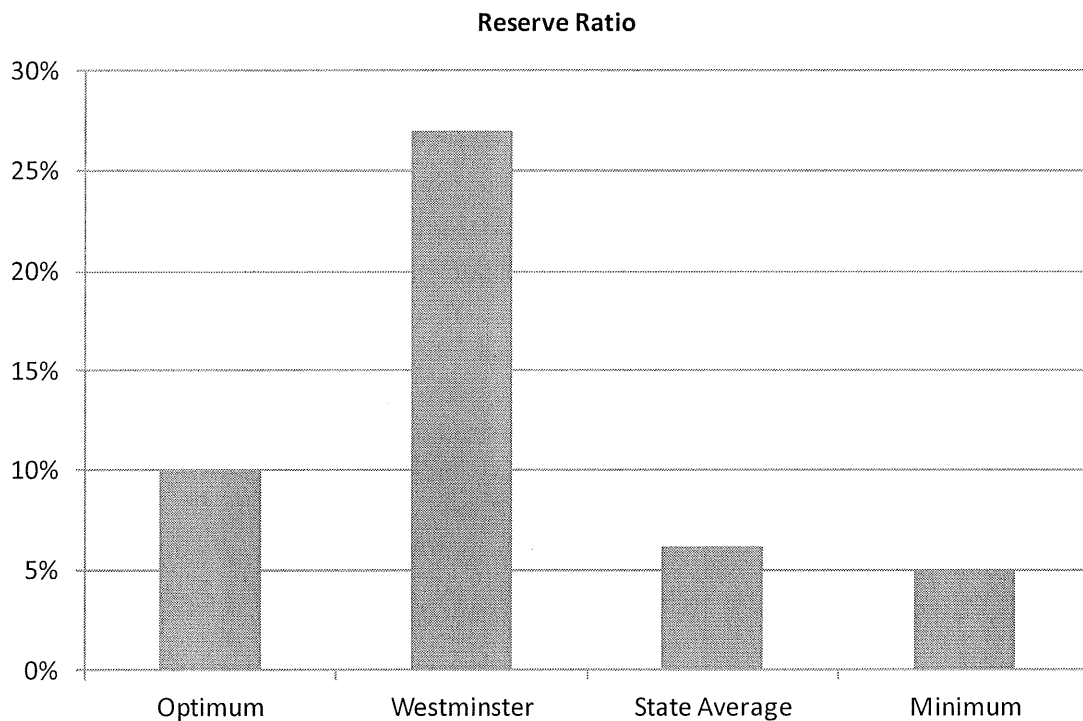
During 2012, the Town was able to build slightly on its already substantial reserves as unassigned fund balance in the General Fund increased by approximately \$300,000 to \$4.8 million. This was primarily due to the Town's budgeting policy of forecasting estimates in a conservative manner. The Town has utilized this methodology for a number of years and this has resulted in frequent increases to the unassigned fund balance. In 2012, actual revenues exceeded budget by \$1.1 million. This positive operating result was able to cover the budgeted use of reserves from the budget process and caused reserves to increase.

We are encouraged by the results of the Town's efforts as this has been accomplished during a period in which an inconsistent economic climate has plagued the entire United States, thus making it very difficult for communities to manage their operations effectively. Many have had to concede to the pressures of maintaining services in lieu of building reserves and thus will have to face the consequences of those decisions including possible downgrades to their credit ratings. Westminster however has been rewarded with a rating one notch below AAA (the top rating) and should be proud of these efforts on the financial front.

The following charts depict the recent trend (unassigned fund balance = undesignated general fund balance plus stabilization):



This recent surge, places Westminster well above the optimum level established by the credit rating agencies as illustrated below:



If the Town continues this trend it will continue to reap the rewards of above average bond ratings. In addition to this, a strategic basket of items the Town should consider that will help maintain its bond rating are as follows:

1. Make efforts to conserve free cash. I.e. avoid using free cash in the operating budget and isolate free cash uses to capital and other one-time items.
2. Take aggressive efforts to continue to maintain above average free cash and stabilization balances.
  - a. Continue to forecast revenues conservatively.
  - b. Implement efforts to enhance revenue.
  - 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. Begin to evaluate additional funding to OPEB.

In addition, the Town should review the items in this report and put in place a plan to correct the items noted. Given the continued challenges management is confronting with respect to the economy, we understand that some of these items will not be given the highest priority.

## **II. INFORMATIONAL ITEMS**

### ***GASB 45***

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.

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 plan. Other communities, although while still in the minority, are becoming more active in this regard.

This is especially important in light of the average employment age for Westminister employees, which is approaching 50, thus possibly making this liability unmanageable in 10 years.

### ***Financial Policy and Procedure 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 understand that the Town is drafting policies for use and is developing a timetable to more formalize such policies as time allows.

### ***Fraud and internal control***

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 directs the audit firm to review departments at a higher scope.

As part of the annual audit, the following departments were reviewed at a more comprehensive level and are discussed in a further section in this report.

1. Animal Control
2. Council on Aging
3. Board of Health

### **III. FINDINGS AND RECOMMENDATIONS**

#### ***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***

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 2012, 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.

#### ***Vehicle trade-in***

We were made aware that as part of a recent vehicle transaction, a new police vehicle was procured for cash and an old trade-in. We discovered that the trade-in was not traded in at the time of the sale. Instead, the trade-in was continued to be driven by an officer and experienced mechanical difficulties and was found to be in need of engine repairs that were estimated at \$2,750.

The vendor with whom the original transaction took place then lowered the trade in value of the damaged vehicle and this became the responsibility of the Town.

We understand that the Town sought legal guidance on this issue and determined that there was no fraudulent intent involved. However, the Town should put in place a policy prohibiting the manner in which this transaction was conducted.

***Purchase Orders***

We determined that Town Department Heads do not always adhere to the Town's Purchase Order policy. Specifically, the Town requires an approved purchase order for any purchase greater than \$5,000 prior to engaging the vendor. In many instances, the Department Heads are requesting the purchase order as a formality only after the purchase has been made, just to satisfy the "complete" package requirements. This defeats the purpose of having a purchase order system in the first place.

We suggest that all Town Department Heads are reminded to follow proper protocol when purchasing goods and services greater than \$5,000.

#### **IV. DEPARTMENTAL REVIEWS**

##### **ANIMAL CONTROL OFFICER**

###### **Introduction**

The Town of Westminster, Massachusetts has entered into an inter-municipal agreement with the Town of Ashburnham, Massachusetts to provide animal control services to each Town. Each Town received approval from their respective Town Meetings in fiscal year 2008 to enter into the agreement. At the beginning of this inter-municipal partnership, Ashburnham hired an Animal Control Officer (“ACO”) who was paid as an employee of Ashburnham, with Westminster invoiced for half of the cost. Ashburnham also provided its own dog pound for use by the ACO, while Westminster provided a van for use by the ACO. In July 2011, the employment of the acting ACO ended, and the Chiefs of Police determined it was in the best interest of the Towns to contract ACO services to a vendor, the Wachusett Animal Hospital and Pet Retreat (“the Animal Hospital”). Upon outsourcing to the Animal Hospital, the dog pound in Ashburnham was no longer used and all boarding services were handled by the Animal Hospital. The ACO services are split evenly by the Towns, while any costs associated with the treatment and care of stray animals are borne by the Town in which the animal resides.

The inter-municipal agreement allows for an audit, or similar engagement, to be performed at the request of either Town.

###### **Recommendation**

There were numerous findings as a result of this review. These were disclosed in detail in a separately issued report which should be reviewed in conjunction with this report.

These findings may be summarized as follows:

1. Lack of competitive procurement process with Animal Hospital in violation of 30B.
2. Lack of contract with Animal Hospital in violation with 30B.
3. Outdated inter-municipal agreement.
4. Administration of non-criminal citations.
5. Revise cost-sharing methodology between the two towns.
6. Costs should be voted as an operating cost not a salary line.
7. Inappropriate charges to the ACO budget.
8. Use of manual call logs maintained by Animal Hospital.
9. Failure by Animal Hospital personnel to take ethic’s examination as special employees.
10. Use of Van, not in accordance with agreement.
11. Update and create more user friendly website. Current site has broken links and could use more information for the public.

## COUNCIL ON AGING

### Introduction

The Town of Westminster, Massachusetts' Council on Aging (the "COA") is overseen by a seven member Board (the "Board") appointed by the Selectmen and managed by an appointed COA Director (the "Director"). The COA has a van driver and several permanent part-time workers.

The COA's mission is to identify the needs of the elderly in the Town and ensure that adequate services are available. The COA provides health, fitness and nutrition programs, as well as referral services and transportation. The building the COA resides in is owned by the American Legion which allows the Town to house the COA in the first floor of the building.

The COA's largest source of revenue is the reimbursement for transportation related costs by the Montachusett Regional Transit Authority ("MART"). MART is one of fifteen regional transit authorities in Massachusetts and provides approximately \$80,000 in annual funding for the operation of a COA van and related costs. The remaining activities of the COA are funded from a general fund appropriation of approximately \$30,000, an annual State Formula Grant of approximately \$8,500, and a small donation fund which has a balance of approximately \$5,000 as of June 30, 2012.

One of the responsibilities of management is to establish and maintain an internal control structure adequate to provide assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization. Consideration should be given to the implementation of controls in this report in order to strengthen this process as it relates to COA activities.

### Recommendation

#### *Cash Reporting and Revenue Reconciliations*

The COA van driver submits a daily report of trips and transportation fees collected to the COA Director and deposits the fees directly with the Treasurer/Collector at the end of each week. There is no reconciliation performed of the revenue collected with the revenue deposited with the Treasurer/Collector and posted in the general ledger. We recommend that the COA Director receive copies of the turnover to the Treasurer/Collector to reconcile to the daily COA van receipts and to the monthly revenue reported on the general ledger.

## BOARD OF HEALTH

### Introduction

The Town of Westminster, Massachusetts' Board of Health (the "BOH") is overseen by an elected three member Board of Health (the "Board") and is headed by a full-time Health Agent appointed by the Board of Selectmen. The office is staffed with a full-time Administrative Assistant and a part-time Assistant Health Agent.

The Board of Health's mission is to preserve and protect the health and well-being of the residents of Westminster. The Board of Health protects the public health, prevents and controls disease, promotes safe and sanitary living conditions, and protects the environment from hazards.

The Board of Health is primarily responsible for the following:

- Emergency planning related to dispensing vaccinations and emergency shelters.
- Annual flu and rabies clinics.
- Issuing permits for septic installers, sewer haulers, food service and various other health permits.
- Public safety monitoring, including beach water testing, food inspections and communicable disease follow-up.
- Solid waste monitoring, including oversight of the landfill and hazardous and other waste disposal.

Revenues are largely from the issuances of permits, which total approximately \$25,000, and fees for inspections which total approximately \$15,000. The BOH supplements its general fund operating budget of approximately \$105,000, with a health clinic and emergency response revolving fund and various small federal and state grants.

One of the responsibilities of management is to establish and maintain an internal control structure adequate to provide assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization. Consideration should be given to the implementation of controls in this report in order to strengthen this process as it relates to Department activities.

### Recommendations

#### *Reconciliation of Permit and Fee Revenues*

The Department maintains a combination of spreadsheets and manual logs to record the issuance of permits and receipt of fees collected by the Department. The Administrative Assistant indicated that formal reconciliations between Department records and the general ledger are not performed. It is imperative that these reconciliations be performed on a regular basis to ensure all cash is deposited and posted to the correct activity.

Furthermore, we recommend the Department begin to automate all records and cease the use of the manual logs. The Building Department utilizes an internally developed database program for its permits which may be able to be modified to fit the Health Department's needs. We believe the Town should investigate whether this software could be utilized by the Health Department.

#### *Drivers' License Verification*

The Health Agent indicated that all employees are required to have a valid license to operate a motor vehicle at the time of hire. However, the Department does not periodically check the validity of staff drivers' licenses. Therefore, there exists the risk that Department employees are operating vehicles as unlicensed drivers while performing their duties. We recommend that the Town implement an annual drivers' license inspection for the Department and document the results of this review. For purposes of maintaining appropriate safeguards for the personal information obtained, we believe that the review should be performed by the Town Administrator's Office while performing license checks for drivers of Town vehicles with the supporting documents maintained in that Office.

#### *Employee Identification*

The Health Agent and the Assistant Health Agent do not have any picture identification to identify themselves as Town employees while they carry out their statutory duties. To ensure the safety of both the Town inspectors and the residents and businesses they serve, we recommend that all department personnel be given picture identification that identifies them as employees of the Town.