

TOWN OF MIDDLETON, MASSACHUSETTS

MANAGEMENT LETTER

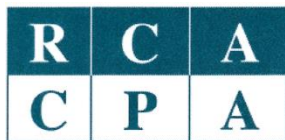
YEAR ENDED JUNE 30, 2017

TOWN OF MIDDLETON, MASSACHUSETTS

**MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2017**

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TRANSMITTAL LETTER

Board of Selectmen
Town of Middleton
Middleton, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Middleton, Massachusetts, (the "Town") as of and for the year ended June 30, 2017, 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 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 entity's 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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

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 entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph 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 that we consider to be material weaknesses, as defined above.

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 and Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 21, 2017

EVALUATION OF TOWN OPERATIONS

The Town continues to achieve positive financial and operating results; a trend that has been in place since at least fiscal year 2011. Bolstered by a continued expanding local economy and conservative, diligent, management, the Town managed to increase or maintain reserves at every level despite (1) using \$1,258,000 from free cash, (2) using \$125,000 from overlay reserve, and (3) passing on almost \$1,800,000 in tax savings to the Town's residents in the form of excess levy capacity.

The following table illustrates this trend over the last several years:

Fiscal Year	Unassigned	Assigned	Total	Expenditures	Reserve Ratio
2011	3,066,038	1,426,671	4,492,709	25,304,273	17.75%
2012	3,285,715	1,421,778	4,707,493	26,211,542	17.96%
2013	5,741,287	660,672	6,401,959	27,971,151	22.89%
2014	5,353,427	740,902	6,094,329	29,570,500	20.61%
2015	4,532,478	1,414,092	5,946,570	31,482,189	18.89%
2016	4,211,832	1,613,352	5,825,184	33,493,606	17.39%
2017	4,473,840	1,494,972	5,968,812	34,390,094	17.36%

As can be observed, the Town has exceeded the bond rating tier one budget metric (as defined in the prior year report) of 15% for at least the last straight 7 years. This is considered a very strong financial measure and continues to meet the Town's annual expectation for this metric. In addition to this, the Town also contributed an additional \$100,000 to its OPEB Trust and now has reached almost \$1 million in this fund as of June 30, 2017.

Finding a reasonable balance of providing sufficient resources for services, while trying to maintain reserve balances at adequate levels, and doing so at a reasonable cost to the taxpayer are challenging propositions but the Town has performed in an exemplary manner in that regard.

Fiscal 2017 also marked a critical year for significant improvements to internal controls. The appointment of a new Finance Director by the new Town Administrator who was appointed the year before brought a heightened sense of awareness and urgency to address audit findings in an aggressive manner and as a result, many of the findings highlighted in the previous year have been satisfied. Specific details regarding this assertion are discussed within the body of this management letter.

Overall, we believe the Town has an excellent financial foundation and has the process in place to maintain this for years to come. We urge the Town to continue to implement recommendations that are still outstanding and to maintain adequate control in those areas that have been addressed.

CURRENT YEAR FINDINGS

Middleton Pre-School Program

The Middleton Public Schools operate an optional pre-school program for children who turn 3 and 4 years old by August 31 of the school year. The program is well attended and sought after as classes fill fast and an annual wait list is normal.

The classes are held at the Howe-Manning School and currently there are 8 different programs based on number of days, times and number of classes ranging from 2 days to 5 days.

Registration is normally held in November for the subsequent year for 3-year old children. The 4-year old classes typically just graduate up from the 3-year old classes. At the time of registration, a profile is created for each participant which includes all the necessary demographic information as well as frequency of payment (there are several choices) and program the child is in.

For the year-end June 30, 2017, the activity earned approximately \$286,000 in revenue, therefore it is a vibrant activity for the School Department.

Observations:

1. The activity is maintained in an overly labor-intensive manner; student profiles are maintained manually, and the daily collections are managed on a very cumbersome Excel spreadsheet. This is particularly inefficient given the number of annual participants in the program compounded by the multiple payments by each participant.
2. Checks may be received at the Howe Manning School or the Fuller Meadow School daily; however, a turnover is prepared only once or twice per month.
3. The office recordkeeper maintains fund balances in summary Excel spreadsheets and reconciles these amounts monthly to the MUNIS records provided by the Town Accountant. However, the detail spreadsheets which are maintained in subsidiary form by participant are never reconciled to summary forms used to balance to MUNIS.

Suggestions:

We suggest the Town evaluate different software programs that will enable parents to register and pay on-line. Such a program will resolve a great deal of the efficiency issues and safeguarding issues noted and listed above as follows:

1. Parents will register on-line, and a file will be created electronically for each participant; this will eliminate the need to fill out and maintain the numerous manual profile sheets.

2. Payment is in the bank immediately when a parent pays on-line rather than payments being brought to the Treasurer's Office only once or twice per month and checks being handled by multiple individuals.
3. The payment process is much easier for the parent, instead of having to bring a check to the school or office it is posted immediately on-line from their homes.
4. Reports can be created from the on-line program and used to reconcile to the Treasurer and the Town Accountant thus eliminating the need to maintain multiple cumbersome Excel spreadsheets.
5. The School does a nice job enforcing payment for delinquents; however, such a program will make reviewing delinquent accounts much more efficient as these types of programs will produce delinquent reports and email reminders to parents directly from the program; and due to the ease of paying on-line will allow parents not to let monthly payments slip by, thus reducing delinquencies.
6. The process is also much more secure as checks are not left in the office which have banking information included on them and are subject to possibly being lost or misplaced.

Overall the administrator performs adequately with the resources available to her and we were impressed with the reconciliation process with MUNIS, however we believe the School could benefit tremendously from modernizing the process as discussed above.

Management Response - Management is in agreement with the findings and will work with School Administration to migrate to a new online system.

PRIOR YEAR FINDINGS - UPDATE

Pension Stabilization Fund – Prior Informational Item

Update - The Town has made us aware that the Board of Selectmen and Finance Committee are generally in favor of establishing a pension stabilization fund and will revisit this upon finalization of the financial policies while establishing targets for all reserve accounts.

OPEB – Prior Informational Item

Update – The Town successfully implemented GASB 74 in fiscal 2017 and has begun the process of implementing GASB 75 in fiscal 2018. Management concurs with the continued funding of OPEB and in fiscal 2017 contributed \$100,000.

Bond Rating – Prior Informational Item

Update – Management is in agreement that after over 20 years of using the same rating agency it makes sense to evaluate other rating agencies. With respect to that, Management is working to improve/finalize those areas such as financial policies prior to seeking such services.

Municipal Data Breaches (data security audit) – Prior Informational Item

Update – The Town agreed with our recommendation and selected a vendor to complete a data security audit; to that end, the Town has a draft report in hand.

***Management Response:** Management is in agreement with the finding and is seeking funds in the FY19 capital budget to implement security measures identified in the audit.*

Mansfield Trust Fund – Prior Informational Item

Update – The Town agreed with our finding that the Mansfield Trust should be accounted for as private purpose trust and during fiscal 2017 the Town began to account for this Trust in this manner.

Financial Policy and Procedure Manual – Prior Finding

Update – The financial policy and procedure manual has been completed in draft form and is currently pending approval by the Board of Selectmen and Finance Committee.

Municipal Light Department Checking Account – Prior Finding

Update – The Town agreed with our finding and has been trying to secure the account for a number of years however the Municipal Light Department is reluctant to give up control of the account. As a compromise the Town Treasurer is included as a signatory on

the account and is allowed to review the reconciliation which allows the Town more control. *We continue to suggest that the checking account is closed or given to the Treasurer as custodian. This comment is not satisfied.*

Management Response: *Management is in agreement with the finding and will continue efforts to transfer custody to the Town Treasurer.*

Ambulance Receivables – Prior Finding

Update – For fiscal 2017, the Town assigned the responsibility of reconciling ambulance activity with the Treasurer. In addition, a policy for write-offs was developed in draft and is included in the Town’s financial policy and procedure draft manual awaiting approval.

Encumbrances – Prior Finding

Update – Consistent with our finding in the prior year, the Town abolished its practice of encumbering payroll at year-end.

Cash Book – Prior Finding

Update – The Town converted its cash book to Excel for the fiscal year 2017 close. This worked quite well. In addition, during the closing of the books, small variances were eliminated that had been carried for a period of time.

Compensated Absences – Prior Finding

Update – During 2017, the Town implemented the MUNIS compensated absence module. The amounts are now being tracked for internal purposes and also calculated for audit purposes.

Fraud Prevention Measures – Prior Finding

Update - The Town is in the process of developing recommended fraud policies and is also in the process of developing a plan to cycle evaluate the various cash handling activities, we as part of the audit, are cycle auditing one cash handling department per year. (see pre-school discussion).

Fixed Assets System – Prior Finding

Update - The Chief Financial Officer redesigned the Excel spreadsheet previously used for fixed assets and has made a determination that this revised spreadsheet is the most cost-efficient solution to tracking fixed assets. In addition, the prior fixed asset listing was cleaned up in a manner that makes the listing more accurate in its present form.

Police and Fire Details – Prior Finding

Update - Police and Fire Detail deficits were raised on the 2017 and 2018 tax recaps and these accounts no longer maintain permanent deficits.

Town Revolving Funds – Prior Finding

Update – Town Revolving Funds were included on the fiscal year 2017 tax recap.

Petty Cash - Prior Finding

Update - A policy was developed for petty cash and is in the process of being implemented. This should be resolved by the end of fiscal year 2018.

Special Revenue Accounts – Prior Finding

Update - The Town included revenue from the Cellular Tower Lease, Fire Alarm Fees and Weights and Measures as estimated receipts in its 2018 budget and will continue to account for these activities in General Fund moving forward.

Stale Special Revenue Fund Balances – Prior Finding

Update - Many of the stale accounts were spent down by the applicable department head. Others are being left open waiting further research and others have been closed out to the general fund as free cash.

FEMA – Prior Finding

Update – The stagnant amounts in the FEMA account were used during fiscal 2017 and into 2018 and the account has been closed out.

Special Revenue Funds in Deficit – Prior Finding

Update - The three special revenue accounts in deficit at the end of fiscal 2016 were either closed out with funds in other related accounts or raised on the 2017 tax recap.

School Revolving Accounts – Prior Finding

Update – In response to the comment that several of the School Revolving accounts appear to have excessive balances; the School began increased spending in these accounts, most notably, the Howe Manning Childcare and Pre-School programs with each dropping by more than \$50,000 during fiscal 2017.

School Lunch Cash Handling – Prior Finding

Update – The School has committed to utilizing a debit card only process for the School Lunch Program. This will eliminate all cash handling issues and also cause the funds to be in the bank immediately. The software should also provide better reporting options for reconciling with Town Hall.

Student Activities – Prior Finding

Update – In order to avoid all the regulations that accompany student activities, since the activity is on the lower side, the School has committed to moving all funds to the PTO and allowing the parent group to manage the process thus reducing any liability the District would have with respect to these funds. We agree with this disposition and suggest the School authorize this action through a vote of the School committee.