

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF UPTON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2018



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TRANSMITTAL LETTER

The Honorable Members of the Board of Selectmen
Town of Upton
Upton, 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 Upton, Massachusetts (the "Town") as of and for the year ended June 30, 2018, 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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Board of Selectmen, and others within the Town, 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
January 28, 2019

OVERVIEW

The nationwide economic recovery (and in some sectors the economic boom) continued throughout fiscal year 2018. Employment figures and GDP continue to surpass expectations and the Massachusetts economy continues to prosper. Real estate values are at record highs in many areas of Massachusetts, including many neighborhoods within the Town.

In its governmental funds financial statements, which most closely resembles the Town's statutory accounting records, the Town's unassigned fund balance in its general funds approximated \$4.3 million at June 30, 2018. Included in the unassigned fund balance at June 30, 2018 was approximately \$1.4 million in stabilization funds.

Liquidity in the general fund is often measured by comparing both the unassigned fund balance to the current year's total fund expenditures. Credit rating bureaus often refer to this as a "reserve ratio." At June 30, 2018, the unassigned fund balance in the general funds approximated 20% of total general fund expenditures. Furthermore, the total fund balance in the general fund approximated 23% of that same amount. The Town's reserve ratio is very strong and provides the Town significant budgetary flexibility in the event of a downturn in the economy.

The Town's budgetary flexibility, strong reserve ratio and planning/funding for its future obligations has undoubtedly been seen as positive factors to S&P. In May 2014, Standards & Poor's Financial Services LLC ("S&P") upgraded the Town's credit rating to AA+. S&P's AA+ rating classifies the Town's general obligations as "investment grade" and is one step below AAA, which is the highest possible credit rating. This high credit rating enables the Town to enjoy very favorable terms in the municipal bond market.

The Town established an OPEB trust fund several years ago. OPEB trusts are intended to assist the Town in funding its future postemployment health and welfare benefits to its employees. The Town has made sizable contributions to the OPEB trust for the past two fiscal years. The OPEB trust has accumulated nearly \$437,000 through June 30, 2018, which the Town's independent actuary estimates to be nearly 7% funded at that date. The establishment of an OPEB trust and continuing contributions, while not currently mandated by Massachusetts General Law, are prudent business decisions that are viewed very favorably by credit rating bureaus.

The remainder of the report reflects informational items and findings and recommendations.. This discussion is intended to provide the Town and its management with recommendations for improvement in accounting and financial operations. The Town should review these recommendations and, if determined to be cost-effective, implement these improvements. Items that have been repeated from past letters to management are so indicated. This letter should be read in conjunction with previously issued letters to management.

INFORMATIONAL ITEMS

OPEB Adoption

As discussed in our previous letter to management, the Town was required to adopt a new accounting standard related to OPEB in fiscal year 2018. Since fiscal year 2009, the Town had been reporting an OPEB *obligation* in its government-wide and proprietary funds financial statements. Essentially, the OPEB obligation was the accumulation of shortfalls between the amount the Town should fund an OPEB plan (its annual required contributions) and the amount the Town paid on a pay-as-you-go basis. The adoption of the new OPEB accounting standards required the Town to actuarially determine the present value of its future OPEB *liability* and record this liability, net of any OPEB trust funds, in its government-wide and proprietary funds financial statements.

As expected, the adoption of this new accounting standard materially affected the Town's financial condition. A prior period restatement of approximately \$2.0 million was made to the beginning net positions of the Town's governmental activities and business-type activities.

The Town established an OPEB trust fund several years ago and has accumulated nearly \$437,000 through June 30, 2018. As it stands at June 30, 2018, the OPEB trust fund is approximately 7% funded.

Maximizing Investment Returns

Over the past ten years, the interest earned on bank deposits have not kept pace with inflation. Many bank depository accounts currently return less than 1%. However, there are a growing number of banks and financial institutions like the Massachusetts Municipal Depository Trust, or MMDT, that are financial stable and offer very liquid short-term investments with annual interest rates approaching 2%.

A review of the Town's bank deposits at June 30, 2018 reveals that a significant portion of its deposits are in depository accounts bearing interest at 1% or less per annum. We recommend that the Town Treasurer evaluate the Town's depository balances and accounts and evaluate the possible benefits of reallocating portions of the Town's excess funds to stable financial institutions that offer very liquid short-term investments.

Technology Security Review

The Town engaged a new outsourced information technology ("IT") service provider to manage its IT infrastructure beginning on January 1, 2019. The engagement of a new IT service provider is an opportunity to have a fresh set of eyes evaluate the Town's IT security, including the risk of an unauthorized party breaching the Town's accounting records and banking accounts.

We recommend that the Town work with its newly appointed IT service provider to perform a risk assessment on the Town's IT security.

Review of Old Performance Bonds/Deposits

The Town maintains over \$290,000 in performance bonds and deposits, many of which have remained unchanged over the past three years. We recommend that the Town analyze its deposits and return fund to the appropriate party/source if needed,

DEPARTMENTAL REVIEW

In connection with the financial statement audit, we performed certain procedures surrounding the cash management and accounting for the Town's public library (the "Library"). This departmental review was limited to areas of accounting and financial significance and therefore does not focus on operational effectiveness or efficiency.

Organization

The Library is staffed by two full-time employees and four part-time employees. The Library is overseen by a nine-member elected Board of Library Trustees (the "Board"). Each elected trustee serves in their capacity for the three-year term.

The Library's operations are subject to an annual budget included in the Town's general fund and voted and approved at the Annual Town Meeting. General fund revenues for the Library are entirely in the form of passport processing fees, which the Library began processing several years ago. The Library ceased assessing fines for late books several years ago, which is a trend seen in other similarly-sized Massachusetts municipalities.

Additionally, the Library operates a revolving fund to account for various programing services and fees collected from lost or damaged material and copier/fac machine usage fees.

The Library is located in downtown Upton. Unlike most municipal libraries, the facility is entirely managed by the Town. Accordingly, the Library's budget does not include any facility-related costs such as utilities. However, the Library has sponsored articles at Town Meeting for the purchase of capital outside the Town's capital plan on occasion.

A "Friends of" organization was established many years ago to assist the Library in meeting its goals within the community. This organization is intended to operate independently from the Library.

Financial Summary

The following is a summary of the fiscal year 2018 accounting for the Department:

	<u>Budget</u>	<u>Actual</u>
General Fund:		
Passport processing receipts	<u>\$ 2,000</u>	<u>\$ 2,108</u>
Salaries and wages	\$ 188,063	\$ 174,027
Library expenses	<u>63,177</u>	<u>63,072</u>
Total general fund expenditures	<u>\$ 251,240</u>	<u>\$ 237,099</u>
Articles Fund:		
Article 25 from FY18 ATM - furniture and fixtures	<u>\$ 5,450</u>	<u>\$ 5,450</u>
Revolving Fund:		
Miscellaneous receipts	N/A	\$ 2,058
Expenditures	N/A	2,088

Financial Reporting

In addition to the monthly budget to actual reports provided to the Library from the Town Accountant, the Library Director keeps an accounting of the Library's expenditures in a spreadsheet and prepares monthly reports for the Board inclusive of financial activity.

Expenditures

Personnel costs represent nearly 75% of the Library's budget and run through the Town's normal payroll processes. Expenditures consist primarily of subscriptions and library materials, which run through the Town's normal vendor warrant process. Five or more members of the Board will endorse the Library's schedule of bills payable presented to the Town Accountant together with the original vendor invoices to evidence their review and approval of the expenditures.

Revenue Sources

The Department has three significant sources of revenues:

1. Annual babysitting training program;
2. Copier and fax usage fees; and
3. Passport processing fees.

The first two revenue sources are accounted for in the Library's revolving fund while passport processing fees are accounted for in the general fund.

Monies collected for the revolving fund activities are not significant and are generally turned over to the Town Treasurer every other month. In fiscal year 2018, there were five turnovers by the Library to the Town Treasurer that totaled \$2,058. These monies are stored in a secure location.

The Library assesses a \$35 fee to process passports. Monies collected for passport processing fees totaled \$2,108 and were turned over with the same frequency as the revolving fund monies. These monies are stored separated in a secure location.

Finding and Recommendations

In connection with its passport processing, the Library is required to mail the completed passport applications to the United States Department of State (the "State Department"). The Library uses cash on-hand from its revolving fund revenue sources (see above) to pay for postage to the State Department. The use of cash-on hand to pay for postage to the State Department effectively circumvents the Town vendor warrant process and is impermissible under Massachusetts General Laws.

We recommend that the Library use its Town-issued debit card for all mailing costs associated with the passport processing fee. Additionally, we recommend that the Town include in the fiscal year 2020 budget a line item for postage related to passport processing.

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