

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

**TOWN OF NORTH ATTLEBOROUGH,
MASSACHUSETTS**

Management Letter

Year Ended June 30, 2020



TOWN OF NORTH ATTLEBOROUGH, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2020

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Honorable Town Council
North Attleborough, 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 North Attleborough, Massachusetts (the "Town") as of and for the year ended June 30, 2020, 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 Town Council, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Roselli, Clark & Associates". The signature is written in a cursive, flowing style.

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
February 3, 2021

OVERVIEW

The COVID-19 outbreak shaped much of the discussion of the Town’s operations for the second half of fiscal year 2020 and its effects are expected to materially affect most of fiscal year 2021. The Commonwealth of Massachusetts provided budgetary guidance to the 351 cities and towns within the state in early fiscal year 2021 indicating that it expects to level-fund state aid for fiscal year 2021. Upon final passage of the Commonwealth’s budget, the Town’s expected net state aid remained relatively consistent with the prior year at \$19.3 million.

The Town implemented a number of cost-saving initiatives in response to COVID-19 including hiring freezes and the deferral, reduction and/or elimination of most discretionary spending. The Town expects that many revenue sources dependent on user fees and charges as well as certain excise taxes may be materially affected in fiscal year 2021 and possibly into 2022.

The Town was awarded approximately \$2.6 million in federal Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) funding. These funds are administered by the Commonwealth’s Executive Office for Administration and Finance. Under the CARES Act, these funds are limited in their use for COVID-19 necessary expenditures and may not be used to substitute lost revenue. The Town also received a number of other federal award related to COVID-19 for a variety of specific purposes.

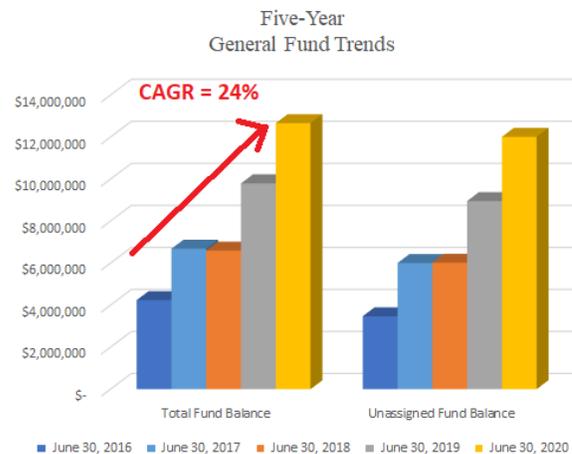
Prior to the COVID-19 outbreak, the U.S. and local unemployment rates were at historic lows. Additionally, labor participation, wages and consumer confidence had been steadily trending higher. The following table illustrates the unemployment rates for Massachusetts as reported by the Commonwealth’s Executive Office of Labor and Workforce Development.



Employment in the food, leisure, travel and entertainment industries have been hit particularly hard and continue to struggle. Despite this steep increase in unemployment, residential real estate values continue to rise to historic highs.

The Town’s financial condition continues to improve. Budgetary flexibility in the Town’s general fund can be measured by comparing the assigned and unassigned fund balances in the general fund to the current year’s total general fund expenditures (inclusive of transfers out). Credit rating bureaus often refer to this as a “reserve ratio.” The Town’s reserve ratio was 12.1% at June 30, 2020, which is an improvement from the prior year’s ratio of 9.8%. Credit rating bureaus would generally consider the Town’s reserve ratio to be good, or very good. Currently, Standard & Poor’s Rating Service assigns an AA credit rating to the Town’s general obligation bonds, which is its third highest rating and signifies that the Town has a very strong capacity to meet its financial commitments and its general obligation bonds are of “high grade.” This credit rating affords the Town to borrow funds for large capital projects at favorable interest rates.

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 fund exceeded \$12.0 million at June 30, 2020 and its total fund balance was nearly \$12.7 million. The table at right illustrates the five-year trend in fund balances for the Town’s general fund. The improvement in the general fund is primarily attributable to an approximate \$6.5 million Proposition 2 ½ override in April 2018, which has had significant positive effects on fiscal years 2019 and 2020.



The largest future obligations affecting the Town pertain to its net pension and net other postemployment benefits, or OPEB, liabilities. The Town’s total net pension liability increased approximately \$1.1 million to approximately \$38.5 million at June 30, 2020 from nearly \$37.4 million at June 30, 2019, while its net OPEB liability increased approximately \$10.4 million to nearly \$141.0 million at June 30, 2020 from nearly \$130.6 million at June 30, 2019.

- The net pension liability increase was due primarily to an approximately \$3.8 million increase reported by the North Attleborough electric department, who reports its net pension liability one year in arrears from the Town due to the difference in its year-end reporting cycle. Excluding the electric department, the net pension liability decreased nearly \$2.7 million as the North Attleborough Contributory Retirement System reported strong investment returns in calendar 2019.
- The net OPEB liability increase was due primarily to the effects of changes in mortality tables and other actuarial assumptions had on this long-term obligation. The Town and electric department collectively contributed approximately \$822,000 to their respective OPEB Plans in fiscal year 2020.

The North Attleborough Contributory Retirement System expects to be fully funded by June 30, 2035. The Town expects that its annual pension appropriations will decrease significantly once the retirement system is fully funded and currently plans to direct a significant portion of these savings to its OPEB Plan.

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.

INFORMATIONAL ITEMS

New Lease Accounting Standard

As previously reported, the Town will be required to adopt a new accounting standard relative to leases beginning in fiscal year 2022 (deferred one year by the GASB). This new accounting standard will dramatically change the manner in which governments account and report lease transactions.

Under this new accounting standard, many lease obligations that were previously accounted for by the Town as an expenditure similar to rent expense will be recognized as an asset with a corresponding liability (similar to debt). Additionally, if the Town leases property to another party, the Town will report a receivable for the present value of the future lease payments and a corresponding deferred inflow of resources.

The new accounting standard (GASB Statement No. 87) defines a lease as a contract that conveys control of the right to use another entity's nonfinancial assets (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles and equipment. Any contract that meets this definition should be accounted for under this new accounting standard.

To effectively implement this accounting standard, the Town will need to perform the following for its lease obligations:

1. Identify all *material* leases. At first pass, this appears to be a straight-forward process. However, some lease arrangements, as defined under the accounting standard, may not use the term "lease" in the agreement or other paperwork. Furthermore, not every agreement that is labeled a lease will meet the accounting standard's definition of a lease. The Town should perform the following:
 - a. Scan disbursement details to identify recurring payments in similar amounts to third parties. This may be indicative of a leasing arrangement.
 - b. Meet with departments that are most likely to lease equipment like technology, public works and police departments. Inquire about the existence of leases and correspond the results of these inquiries with the procedures in a.
 - c. Materiality will play a role in this analysis. A lease arrangement for a Town's postal meter will not have as great an impact as its lease of a fleet of police cruisers. The Town should work with its auditors to identify a dollar threshold for this analysis.
2. Gather the lease agreements/contracts for the Town's leases. Create a central repository for lease agreements either in paper or electronic format.
3. Create a database or spreadsheet of the key lease terms, which will include the lessor name, payment terms, description of the lease and renewal options, if any.

Once this data has been accumulated, work with your auditor to determine the best manner to calculate the lease figures.

If the Town is receiving regular, periodic payments from another party for that party's use of the Town's property, a similar process needs to be followed to account for the Town as a lessor.

A similar lease accounting standard was recently adopted for nongovernment accounting with public companies adopting this lease standard beginning in calendar year 2019. There are numerous publications on the difficulties public companies experienced in this implementation. One of the most common problems many public companies faced was not starting this process early enough. We encourage the Town to begin this process soon.

Network Security

As previously reported, ransomware continues to affect municipal organization in the United States. Ransomware is an insidious type of malware that encrypts, or locks, valuable digital files and demands a ransom to release these files. The most common ransomware attack involves a victim opening an emailed file or clicking an attachment that appears legitimate like an invoice, but actually contains the malicious ransomware code. As these emails often appear to be legitimate, the victim is unknowingly baited into executing the ransomware code. Ransomware attacks are opportunistic; the size of the victim organization and its available resources are not leading indicators to an attack. Once penetrated, ransomware attackers can cause a municipality's technology resources to come to a standstill.

To compound matters, remote access to a government's secure servers and networks has increased greatly as more and more municipal employees are working remotely due to the effects of COVID-19. Remote school learning adds an additional level of risk too.

Effective protection first requires a commitment from a municipality's leadership to dedicate the necessary resources to best protect the community. Technology personnel (internal and/or outsourced) must continuously exercise diligence in this area. Finally, this commitment then extends to all municipal employees who, whether they like it or not, are part of ransomware prevention/protection.

The U.S. FBI recommends that organizations provide ransomware training for their employees and employ robust technical prevention controls. The FBI also recommends developing a business continuity plan in the event of a ransomware attack. More detailed recommendations by the FBI Cyber Division can be found on the FBI's website.

The Town's technology plans incorporate a number of prevention and protection measures including deploying anti-virus and anti-malware software, managing network permissions and access, regularly backing up digital data and requiring users to rotate passwords periodically.

We understand that the Town upgraded its email system to Office 365 and purchased cyber security insurance in fiscal year 2021. Additionally, the Town plans on implementing employee training on cyber security threats in fiscal year 2021.

We continue to recommend that the Town perform an in-depth risk assessment surrounding its network security for not only its critical financial functions, but also in areas such as police, fire and the school district; attacks within one of these remote departments can penetrate into the Town's critical financial systems.

Increased Frequency of Phishing Scams Throughout the Commonwealth

Phishing scams of municipalities throughout the nation have been increasing in frequency and success over the past several years. One of the more common and successful strategies involves fraudsters creating email accounts that appear to belong to legitimate vendors (or even a municipal employee) a community does business with. Over a series of email communications, the fraudster will coerce

sensitive information from a community or initiate a change to payment method (i.e., new mailing address or direct deposit/wiring instructions).

We've provided some guidance to the Town's finance personnel surrounding these issues, including how to spot some "red flags" that may reveal these scams via email communications. We also recommend some policy enhancements like requiring changes in direct deposit information to be completed by employees in person and changes to payment methods to vendors to be confirmed independently over the phone or in person if possible.

Finally, we cannot stress enough the need to have up-to-date network security tools and protocols and the need to regularly educate employees on these scams and threats.

Waste, Fraud and Abuse

In July 2018, the Comptroller General of the United States issued revised *Government Auditing Standards*, which is commonly referred to as the "Yellow Book." The new Yellow Book defines the concept of waste in a government as the act of using or expending resources carelessly, extravagantly, or to no purpose. Importantly, waste can include activities that do not include abuse and does not necessarily involve the violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions and inadequate oversight.

The COVID-19 outbreak and the related workforce shutdowns/slowdowns has provided municipalities and opportunity to reassess their current resources and discretionary spending. Costs and expenses previously thought to be required and/or necessary may now be reevaluated and may be considered to be wasteful. We recommend that the Town evaluate the effect its shutdowns/slowdowns have had on its operations and identify potential areas of wasteful spending and take the appropriate next actions.

Previously Reported Items We Continue to Highlight

Assignment of Delinquent Accounts

The Town maintains approximately \$93,000 in personal property tax receivables aged over five years, some of which date back as far as 1999. Additionally, there are nearly \$400,000 in outstanding motor vehicle excises taxes receivable going as far as 1991. In the audited financial statements, allowances for uncollectible accounts have been reported that cover these amounts as the likelihood of collection is low.

In our letter to management dated January 23, 2020, we cited specific sections within Massachusetts General Law that provide the Town with legal remedies to address these old, delinquent balances. We refer you to that letter for additional details.

Accounting and Financial Policies and Procedures Manual

As previously reported, the Town has a series of accounting and financial policies put together from a variety of different departments, some of which were initially approved in the early 2000's. A comprehensive, current accounting and financial policies manual does not exist.

Formal policies and procedures play a critical role in any internal control system. Furthermore, in periods of personnel transition for which the Town has experienced over the past several years, such policies and procedures can prove invaluable and assist in these often-difficult transitions.

Furthermore, as the Town's governing format changed effective July 1, 2019, this is a good time to develop an up-to-date manual.

We understand that the Town Accountant is currently working on an updated policies and procedures manual.

Ambulance Receivables

In our three previous letters to management, we reported that the gross receivable for the Town's ambulance service has been steadily increasing over the past several years. The Town's fire department indicated that it been over ten years since it last performed a comprehensive analysis of outstanding receivables with its third-party ambulance billing and collections agency. Furthermore, the fire department was unaware of the existence of a formal ambulance receivable write off policy.

We continue to recommend that the Town develop an ambulance receivable review and write off policy, which includes a requirement for annual (at a minimum) reviews of past due balances and a process by which uncollectible accounts can be written off.

FINDINGS AND RECOMMENDATIONS

School Warrant Review

In connection with our testing procedures, we became aware of several school department vendor warrant processing errors. These errors were discovered by the Town's accounting department; in some cases, these discoveries were after the Town's payment to the vendor. Some examples of these vendor warrant processing errors include:

- The submission of a vendor invoice for car parts with a purchase price of \$39 and associated shipping costs of \$100. The high cost of shipping caused the Town Accountant to seek additional background information on the invoice. The Town Accountant determined that the vendor invoiced the Town of North Attleborough in error; the submitted invoice was erroneously billed to the Town and should have been billed to another party. However, this invoice was included in a School Committee approved vendor warrant. This error was discovered by the Town Accountant prior to payment to the vendor.
- The submission of a repairs charge for payment totaling \$4,866 against a quotation dated November 14, 2019 (which does not have the appearance of a quotation, but more closely resembled an invoice), which was paid by the Town on December 5, 2019. The school department submitted an invoice from the same vendor in the same amount for the same project dated December 3, 2019 in a School Committee approved vendor warrant. This error was discovered by the Town Accountant prior to payment to the vendor.
- The submission of several HVAC vendor invoices for services at rates that were inconsistent with the contractual prices. Upon discovery of these errors, the Town Accountant inquired directly with the vendor and determined the cause of the errors and secured a credit memo from the HVAC vendor.
- The submission of a \$60,000 gas utility invoice for the North Attleborough Middle School for the month of February 2020 when the prior month's bill was \$11,741 and the same period in the prior year was \$12,823. Upon receipt of the School Committee approved vendor warrant, the Town Accountant flagged the invoice and removed it from the vendor warrant check run. The North Attleborough Fire Department performed a safety check of the school in the event that there was a gas leak. The Town Accountant inquired directly with the utility company and determined that the meter reading was incorrect.
- The submission of a vendor invoice for portable scoreboards with a purchase price of \$8,172 and associated shipping costs of \$1,300. This shipping charge was flagged by the Town Accountant. The Town Accountant inquired directly with the vendor, who indicated that the invoiced amount for shipping was \$625 too high. This error was discovered by the Town Accountant subsequent to the payment to the vendor. The vendor issued a refund check to the school department.

In addition to the specific examples of vendor invoice processing errors illustrated above, we observed some instances in which supporting documentation remitted to the Town Accountant's office was insufficient. This requires inquiry and follow up from the Town Accountant's office to the School Business Office, which caused inefficiencies and delays in the processing of vendor warrants.

It is apparent based on the examples above that the level of review of vendor warrants at the school department needs enhancements. We recommend that the Superintendent, School Committee and School Business Manager evaluate the school department's vendor warrant processes and remediate these internal control matters. Some remedies may include additional employee training and the implementation of more formalized quality reviews of the vendor warrants prior to submission to the Town Accountant for processing.