

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

**TOWN OF NORTH ATTLEBOROUGH,
MASSACHUSETTS**

Management Letter

Year Ended June 30, 2022



TOWN OF NORTH ATTLEBOROUGH, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2022

Table of Contents

Transmittal Letter 1

Overview..... 2 – 3

Informational Items, Findings and Recommendations 4 – 8



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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, 2022, 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.

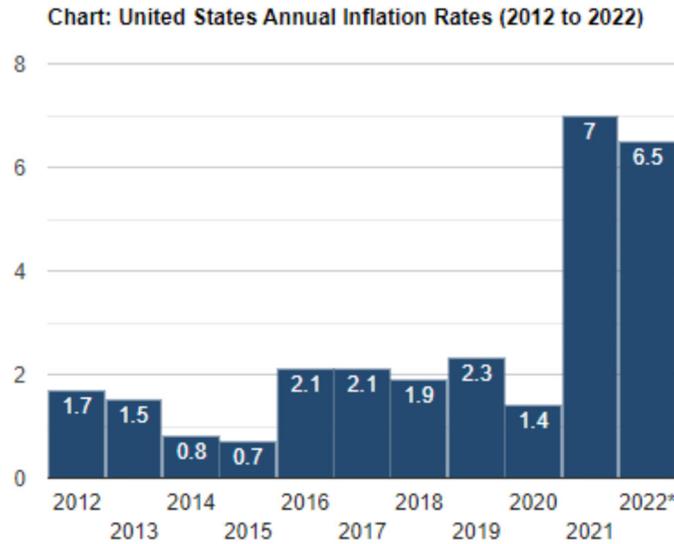
This communication is intended solely for the information and use of management, the Town Council, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

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
March 13, 2023

OVERVIEW

COVID-19 health and public safety restrictions were, for the most part, lifted during fiscal year 2022 and the Town's operations resumed to near normal levels for the first time since fiscal year 2019. However, inflation in energy, materials and general consumables has been historically high, which affects the cost to operate the Town. The table below illustrates the rise in inflation over the past ten years:



SOURCE: www.usinflationcalculator.com

Employment in Massachusetts has been strong in calendar year 2022. The Massachusetts Executive Office of Labor and Workforce Development reported an unemployment rate of 3.5% for March 2023. Employment levels in the industries hardest hit by the COVID-19 pandemic such as food, leisure, travel and entertainment have seen significant improvements. The Massachusetts real estate market continues to be robust as evidenced by the historic highs in residential housing values.

The Town's financial condition continues to be very good as measured by the budgetary flexibility in the Town's general fund. Budgetary flexibility is often measured by comparing the assigned and unassigned fund balances in the general fund to the current year's total general fund expenditures. Credit rating bureaus often refer to this as a "reserve ratio." At June 30, 2022, the Town's reserve ratio was approximately 21%, which is a significant improvement from the prior year's reserve ratio of 18%. Credit rating bureaus would generally consider the Town's reserve ratio to be very good or even strong. Currently, S&P Global Ratings assigns an AA+ credit rating to the Town's general obligation bonds, which is its second highest rating and signifies that the Town has a very strong capacity to meet its financial commitments. This strong credit rating affords the Town to borrow funds for large capital projects at very 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 \$18.6 million at June 30, 2022 and its total fund balance exceeded \$21.9 million.

The Town's most significant long-term liabilities include its (1) long-term debt, (2) net pension liability and (3) net OPEB liability. Debt in the Town's sewer, water, and solid waste enterprises is supported through user rates.

The Town's debt service in its general fund represented approximately 4.0% of total fiscal year 2022 general fund expenditures (on a statutory basis; on a GAAP basis, this ratio is 3.5%). The Town's pension system was approximately 87% funded as of December 31, 2021 and its OPEB plan is approximately 3% funded at June 30, 2022.

The Town expects to receive approximately \$8.0 million in federal funds under the Coronavirus State and Local Fiscal Recovery Funds, which is a part of the American Rescue Plan Act, or ARPA. The Town has largely formulated a plan on use for these ARPA funds. Of the Town's total maximum federal award, over \$5 million is being passed-through from Bristol County. Under current federal guidance, these funds must be obligated by December 31, 2024 and fully expended by December 31, 2026. Furthermore, the term "obligated" in the context of this federal award requires purchase orders and/or contracts; a plan from the Town Council or other management team/committee does not qualify as an obligation for these purposes.

The remainder of the report reflects informational items, 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, FINDINGS AND RECOMMENDATIONS

Increase in Frequency of Municipal Theft

We've reported to the Town on several occasions about the risks of municipal theft and fraud. We've observed the frequency of municipal theft increasing, particularly as the local and statewide economy is feeling the effects of inflation, layoffs and even recessionary pressures.

While our audit is designed to consider the risk of theft and fraud, the objective of a financial statement audit is not a forensic audit for fraud. According to the Association of Certified Fraud Examiners 2020 Global Study of Occupational Fraud and Abuse, management is in the best position to evaluate, monitor and evaluate its operations for theft and fraud. In fact, approximately 70% of fraud is identified through (1) tips and whistleblowers, (2) internal audit and (3) management review and another 10% is identified through (a) account reconciliations, (b) document examination (i.e., review of vendor and payroll warrants) and (c) surveillance/monitoring, each of which are management functions.



Source: Association of Certified Fraud Examiners 2020 Global Study of Occupational Fraud and Abuse

Municipal theft and fraud can occur in countless ways. The most common that the Town faces include:

1. **Theft of Cash Receipts** – According to the Association of Certified Fraud Examiners, this type of fraud is the **most frequent** type of fraud municipalities become victim to. Fraudulent schemes to steal municipal receipts prior to their recording in the accounting records represent a significant risk to a municipality and is among the most common forms of cash receipts fraud committed. In this fraud scheme, cash received at a departmental level is simply not turned over to the Town Treasurer. Generally, this type of fraud starts small and grows over time.

There are a number of prevention methods that can be used to prevent or timely detect this type of fraud including:

- a) Trend analysis of departmental revenues for multiple accounting periods by the Town Accountant and Town Manager;
- b) Performing periodic “audits” or business reviews of departmental turnover procedures; and
- c) Limiting the ability for customers to pay via cash.

Trend analysis of departmental revenues tracks monthly recorded revenues by department by revenue type (i.e., permits, user fees, fines, licenses) over several years. In doing so, patterns can generally be observed and deviations from these patterns may identify abnormalities, including the possibility of fraud.

Periodic “audits” or business reviews at departments by the Town Accountant can provide insights into a department’s operations that cannot be obtained by simply reviewing its periodic cash receipt turnovers to the Town Treasurer. We recommend that the Town adopt a schedule for these business reviews and perform these reviews on two to three departments each year.

Transitioning from cash towards online payments mitigates many of these risks.

2. ***Unauthorized Issuance of Vendor Checks*** – According to the Association of Certified Fraud Examiners, this type of fraud presents the greatest risk of theft of **material** amounts of municipal funds. Payments are made from municipal bank accounts to either fictitious vendors or to valid vendors for unauthorized or phantom goods or services. This type of fraud is generally perpetuated at higher levels within a municipality (i.e., department heads with purchasing capabilities, Accounting or Treasury personnel). There are a number of prevention methods that can be used to prevent or timely detect this type of fraud including:

- a) Timely review of budget to actual results by department heads, the Town Accountant, the Town Manager and the Town Council;
- b) Regular periodic review of vendor master files within the Town’s accounting system and the deactivation of vendors who haven’t served the Town for several years; and
- c) Timely reconciliation of bank accounts.

Department heads have access to their budget to actual data in real-time. The Town Manager reports financial information to the Town Council regularly. Furthermore, cash reconciliations are generally completed in a timely manner.

3. ***Payroll Fraud*** – According to the Association of Certified Fraud Examiners, this type of fraud was present in a similar frequency as cash receipts fraud and its average loss was also comparable to cash receipts fraud. The most common types of payroll fraud applicable to municipalities pertain to (i) expense reimbursement and (ii) payments for hours/service not performed.

Due to the nature of the Town’s operations, expense reimbursements are infrequent and generally carry a good deal of scrutiny. The Town’s timely review of budget to actual performance serves as a key detective control with respect to this fraud risk area. Furthermore, there are multiple levels of review of payroll submissions to assist in mitigating fraud from payments for hours/service not performed.

Enhanced Communication Related to Single Audit

The audit and final submission of the Town's federal awards, which is commonly referred to as the single audit, was filed after the March 31, 2023 deadline. As a result, for the purposes of the Town's single audit, the Town is now classified as a high-risk auditee. This will likely result in additional audit testing in both fiscal year 2023 and 2024.

There were several unsuccessful attempts to secure supporting audit documentation from the school district, which was a contributor to the untimely filing of single audit. We recommend that the school district develop a timeline and assign deadlines and responsibilities for the fiscal year 2023 single audit to better ensure the timely completion of this federal requirement.

School Lunch Fund Balance

The June 30, 2022 fund balance in the Town's school lunch revolving fund exceeded \$581,000. Under current federal guidance, "the school authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service." The current balance is higher than the tolerable federal threshold (approximately \$475,000 for the Town).

The Town, like many other Massachusetts cities and towns, has experienced an increase in its school lunch balance as a result of the significant state and federal awards the Town has received. Based on fiscal year 2023 expected state awards, it is possible that this fund balance will grow even larger.

The school district needs to develop a formal plan to reduce this surplus.

Pension Withholding Reviews

While the results of the latest financial statement audit of the North Attleborough Contributory Retirement System, a fiduciary component unit of the Town, did not result in material discrepancies between actual pension withholdings and expected pension withholdings, there is an inherent risk that changes to payroll codes (particularly stipends) at both the Town and school district may not have the appropriate pension percentages withheld. Periodic communication between the Town, school district and the Retirement System to discuss new pay codes should become a regular part of the day-to-day operations in payroll processing.

We recommend that the Retirement System meet with the Town and school district semi-annually (at a minimum) to ensure that new payroll codes are being properly assessed pension deductions.

Community Impact Fees

The Town recently began receiving community impact fees from marijuana retailers. The current agreement calls for a 3% annual community impact fee on gross sales of marijuana and marijuana products. Based on new legislation as well as court challenges, the Town should closely monitor, account and document the actual costs incurred by the Town to address the impact retail marijuana has had on it. Careful analyses should be made in this area together with consultation with legal counsel.

Network Security (annual update)

As previously reported, ransomware continues to affect municipal organization in the United States. 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 have a role in the Town's 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 regularly. The Town recently implemented a number of enhancements to its technology, many of which assist it in this area, such as upgrading its email system to Office 365 and implementing employee training on cyber security. The Town also began subscribing to cyber security insurance beginning in 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 library; attacks within one of these remote departments can penetrate into the Town's critical financial systems.

Increased Frequency of Phishing Scams Throughout the Commonwealth (annual update)

As previously reported, 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 treasury personnel surrounding these issues, including how to spot some "red flags" that may reveal these scams via email communications. We understand that the Town has implemented 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.

New Technology Subscription Accounting Standard

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for the Town beginning in fiscal year 2023. Under this new accounting standard, an SBITA is a contract that “conveys control of the right to use another party’s IT software, alone or in combination with tangible capital assets, as specified in a contract for a period of time in an exchange or exchange-like transaction.”

In laymen’s terms, software purchased by the Town that is hosted by the software vendor (which is commonly referred to as software as a service, or SaaS, arrangements) under an agreement that is more than one year likely qualifies for accounting under this new standard.

The Town should evaluate all *material* software hosting arrangements. These contracts should be gathered and the Town should create a listing of each material software hosting arrangement that includes key data points such as software name, vendor name, subscription start and end dates, annual required payments and renewal options, if any.

Previously Reported Items We Continue to Highlight

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.

Assignment of Delinquent Accounts

The Town maintains approximately \$74,000 in personal property tax receivables aged over five years, some of which date back as far as 1999. Additionally, there are nearly \$429,000 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.

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