

TOWN OF HOLLISTON, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2017

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Board of Selectmen
Town of Holliston
Holliston, 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 Holliston, 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 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
February 28, 2018

OVERVIEW

Throughout fiscal year 2017, the local, state-wide and national economies continued to strengthen. Unemployment rates are low and property values are rising. Furthermore, the Town's median household income continued to significantly outpace the statewide and national medians.

The Town recently adopted a series of financial policies that set goals for minimum reserve balances for its stabilization, capital reserves, OPEB trust funds. These policies also address areas like pension funding. As a result of the Town's strong financial performance over the past several years and its commitment to growing these reserve fund ratios, the Town is well positioned to address its future needs and obligations.

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 \$6.0 million at June 30, 2017 and its total fund balance was nearly \$10.6 million. Overall, the total fund balance in the general fund increased over \$1.5 million in fiscal year 2017, which is mostly indicative of strong revenue growth. Included in the unassigned fund balance at June 30, 2017 was approximately \$4.8 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, 2017, the unassigned fund balance in the general funds approximated 9% of total general fund expenditures. Furthermore, the total fund balance in the general fund approximated 16% of that same amount.

The Town has been at the forefront in Massachusetts in establishing and funding an OPEB trust to assist the Town in funding its future postemployment health benefits to its employees. At June 30, 2017, the Town's OPEB trust totaled over \$9.0 million. The Town's recently adopted financial policies seek to contribute \$1.5 million to this trust for the foreseeable future.

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 connection with a refunding (i.e., refinancing) of long term general bond obligations in February 2016, Standard & Poor's Rating Services, or S&P, reaffirmed its credit rating of AA+, which is one step below S&P's highest rating of AAA. This high credit rating enables the Town to enjoy very favorable credit terms in the municipal bond market.

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.

INFORMATIONAL ITEMS

New Financial Statement Disclosures – OPEB Part 1

The Town adopted Governmental Accounting Standards Board, or GASB, issued Statement No. 74, *Financial reporting for Postemployment Benefit Plans Other Than Pensions*, in fiscal year 2017. Other postemployment benefits is commonly referred to as “OPEB” and includes health and welfare plans and other similar benefits provided to Town retirees exclusive of pension benefits. The Town’s current policy is to contribute 60% of the cost of retiree health insurance costs, which represents the largest component of OPEB.

The adoption of this accounting standard resulted in additional disclosures within the Town’s financial statements and the inclusion of the effects of retiree benefits paid and received (both from the Town and its retirees) in the Town’s fiduciary funds financial statements.

FY 2018 New Accounting Principle – OPEB Part 2

As discussed in previous letters to management, the Town will be required to report the full amount of its net OPEB *liability* in its government-wide and proprietary funds financial statements in fiscal year 2018. The Town currently reports a net OPEB *obligation* in its government-wide financial statements calculated under GASB 45.

The Town’s net OPEB *liability* is significantly greater than its net OPEB *obligation*. The Town’s independent actuary determined that the Town’s net OPEB *liability* at June 30, 2017 was approximately \$22.2 million versus a net OPEB *obligation* of approximately \$8.0 million.

The Town’s independent actuary will remeasure the Town’s net OPEB liability at June 30, 2018. The Town will present this figure in its fiscal year 2018 affected financial statements. This will result in a further deterioration in the Town’s unrestricted net position.

The Town established an OPEB trust fund several years ago and makes substantial annual contributions to it. As it stands at June 30, 2017, the OPEB trust fund is approximately 29% funded.

As we have indicated in several previous letters to management, the Town should continue to include OPEB in its long-term planning.

Changes to Single Audit Requirements – Need for Internal Control Framework

In our previous two letters to management, we notified the Town that there were a number of changes made to single audits. One of the requirements under the new Uniform Guidance (the successor to the OMB A-133 compliance supplement) is that all federal award recipients are required to establish an internal control system based on a recognized internal control framework such as the Green Book or COSO.

While the majority of the Town's federal awards pertain to educational grants, the Town has been the recent recipient of large federal awards in other areas, particularly in public safety. Many Massachusetts municipalities of similar size to the Town are focusing their efforts solely at the school level, for which the Massachusetts Association of School Business Officials, or MASBO, provides significant guidance, including policies and procedures templates. The proper implementation of any internal control system requires coordination or resources between not only the Town Accountant, but the School Business Office (the primary recipient of federal awards) and the Town Treasurer.

We understand that the Town Accountant has an internal control document that contains much of what is required to document the Town's internal controls and provide guidance for ongoing monitoring. The proper implementation of any internal control system requires coordination or resources between not only the Town Accountant, but the School Business Office (the primary recipient of federal awards) and the Town Treasurer.

We recommend that the Town's finance team prioritize this matter to properly establish their internal control system this year.

Student Activities in the News

On November 27, 2017, the *Boston Globe* reported on the Boston Public Schools' use of student activity accounts to pay employees "under the table" and for purposes unrelated to student activities. These violations of federal and state tax law and Massachusetts General Laws were uncovered by an IRS audit. The *Boston Globe* article spotlights the need for continued oversight of the operation of a school district's use of student activity accounts as well as the risks associated with their misuse. Furthermore, as these matters were made public in the state's most widely circulated daily newspaper, this may lead to additional rules and regulations being issued by the Commonwealth related to student activity accounts.

We are pleased to report that the Town's schools undergo independent reviews of their student activity accounts on a rotational basis in accordance with recommendations set forth by the Massachusetts Department of Elementary and Secondary Education and MASBO. The Town's schools have written policies and procedures to assist in administering student activities. Additionally, the Town and its schools have implemented a number of internal controls to better ensure compliance with federal and state laws and regulations.

We recommend that the Town provide a copy of this article to all school principals as a training tool and to continue its diligence in managing this fiduciary activity.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Change in Internal Accounting Method for Health Insurance Withholdings

In fiscal year 2018, the Town intends to change the manner in which it internally accounts for employee health insurance withholdings. In the past, employee withholdings were placed in a separate fund internally referred to as a health insurance trust and applied against health insurance premium invoices. Beginning in mid to late fiscal year 2018, these withholdings will be recorded in withholding liability accounts in the Town's general fund.

Due to the timing in which the School pays its employees, there is generally a build up of health insurance withholdings in the month of June each year related to teachers electing to be paid one lump sum for their summer pay. Therefore, we recommend that this process be completed at a month end period well in advance of June 2018 to better ensure that one-off items such as the teacher summer payroll do not affect the quality of this transition.

Furthermore, we recommend that the employee withholding accounts be reviewed monthly between the Town Treasurer and Town Accountant to ensure that the necessary application of employee withholdings are made versus health and dental insurance premium invoices.

Centralized Vehicle Title Repository

Currently, individual departments maintain the titles for their departmental vehicles. There is no state or Town regulation requiring a central repository for vehicle titles, however the use of a central party to maintain and monitor vehicle titles permits the Town to more readily update its motor vehicle insurance policies and add or remove disposed vehicles from the Town's fixed asset database.

We recommend that the Town evaluate the use of a central vehicle title repository and administrator.

Departmental Reviews (repeated from the prior year)

The Town recently upgraded the Town Accountant's Office through two significant steps – first it hired a professional with both governmental accounting and public accounting experience, and second it hired a part-time assistant. These upgrades finally afford the Town the ability to perform periodic reviews of accounting processes at the departmental level (particularly those departments like Recreation, Council on Aging and the Library that are not housed at the Town Hall).

We continue to recommend that the Town Accountant establish a rotation plan to review the accounting operations of the Town's departments and establish a monitoring plan for its decentralized departments.

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