

# TOWN OF TEMPLETON

AUDIT EXIT CONFERENCE - BOARD OF SELECTMEN  
ROSELLI, CLARK & ASSOCIATES  
APRIL 25, 2017



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# INTRODUCTION -

- What is an audit?
- Performed in accordance with GAGAS (Yellow Book).
- Requires understanding of internal control over major transactions.
- Requires risk assessment and enhanced procedures in identified material areas.
- Clean opinion verse qualified/modified opinion.
- Does not constitute a fraud/forensic audit.

# PRELIMINARY ASSESSMENT

## □ Preliminary assessment

- Poor control environment (complete disregard for internal control)
- Poor leadership
- Poor accounting systems
- Mismanagement in numerous key areas
- Turnover in key positions – continuity issue
- Limited funds to attract individuals with sufficient qualifications
- Reckless processing of transactions
- Lack of transparency
- No audits for four years or balance sheets for DOR

## □ Expectations based on preliminary assessment

- Likelihood of material errors was probable
- Likelihood of noncompliance with laws and regulations was probable
- Likelihood of fraud taking place and not be detected was possible

# SUMMARY RESULTS

- ❑ Nine material internal control weaknesses
- ❑ Six material instances of noncompliance with laws and regulations (three of these overlapped material internal control weaknesses)
- ❑ Eleven findings and recommendations many of which had multiple findings within each subset
- ❑ \$748,432 in appropriation deficits
- ❑ Approximately \$1,400,000 in Capital Projects deficits

# MATERIAL WEAKNESSES – INTERNAL CONTROL

## ☐ Budget Management (also a violation of laws and regulations)

- No controls in place to prevent appropriation deficits
- Lack of monitoring
- Lack of communication with department heads
- Debt Service - \$550,314
- Benefits - \$111,524
- Various Other - \$86,594

## ☐ General Fund Overdraft (also a violation of laws and regulations)

- No controls in place to prevent internal illegal borrowings from other funds
- BAN and Bond proceeds commingled with General Fund money
- No cash forecasts prepared

# MATERIAL WEAKNESSES – INTERNAL CONTROL

- ❑ Capital Project Management (also a violation of laws and regulations)
  - 252 Baldwinville Road
  - Elementary School
  - Senior Center
  
- ❑ Financial Reporting System
  - Failed conversion from prior system
  - Reconstruction of all accounting records
  
- ❑ Lack of documented policies and procedures
  - No documented polices and procedures over key transactions

# MATERIAL WEAKNESSES – INTERNAL CONTROL

## Bank to cashbook reconciliation

- 2013 and 2014 reconciliations prepared 2 to 3 years later
- 2015 prepared in 2016 and 2016 prepared in 2017
- 2017 is caught up

## Treasurer's cash to General Ledger cash reconciliation

- 2013 – 2015 completed in 2016
- 2016 completed in 2017
- \$50,000 positive variance exists

## Accounts Receivable reconciliation

## Other Postemployment Benefit calculation



# MATERIAL INSTANCE OF NONCOMPLIANCE WITH LAWS

## ❑ Procurement process

- Poor policies and transparency
- Town accountant seldom involved in contract process
- Numerous violations of Chapter 149 construction laws
- Lack of fair and unbiased procurement
- Bid splits
- Senior Center
- Renovation of Town Hall

## ❑ Submission of required DOR reporting

- Balance sheet has not been submitted since 2012
- Schedule A submitted late resulting in hold up of Town's local aid in 2013

## ❑ Single Audit

- In 2013 and 2014 not submitted within 9 months of year-end
- Currently being submitted (4 years late)
- Risks future Federal funding of CDBG in the millions

# GENERAL FINDINGS

## ❑ Betterments

- Inconsistent application to debt service between tax and betterment sources
- Resulted in DE1 incorrectly calculated
- Excess betterments recommended to be amortized over remaining life of debt

## ❑ Ambulance Write-off policy

- No formal write-off policy

## ❑ Sewer

- Incomplete reporting of commitments to the Town Accountant
- Results in an inefficient process
- Backup and recovery of files (files were lost from 2013 due to flood)

# GENERAL FINDINGS

## Indirect costs

- Formalize calculation and obtain sign offs
- Transfer indirect costs even if funds are not available since they have been voted – create deficit in the enterprise fund not the general fund

## Capital asset tracking and reporting

## Payroll withholding account reconciliations

## Tax Rate Recapitulation

- Numerous errors in preparation
- Deficits not raised
- DE1 incorrectly calculated
- Revenues improperly budgeted

# GENERAL FINDINGS

## Compensated absences

- Not calculated for any of the years

## CDBG – fixed asset transfer to Water Department

- Fixed assets constructed on behalf of Water Department (almost \$500,000) never communicated to Water Department auditors or accountant

## Treasurer/Collector

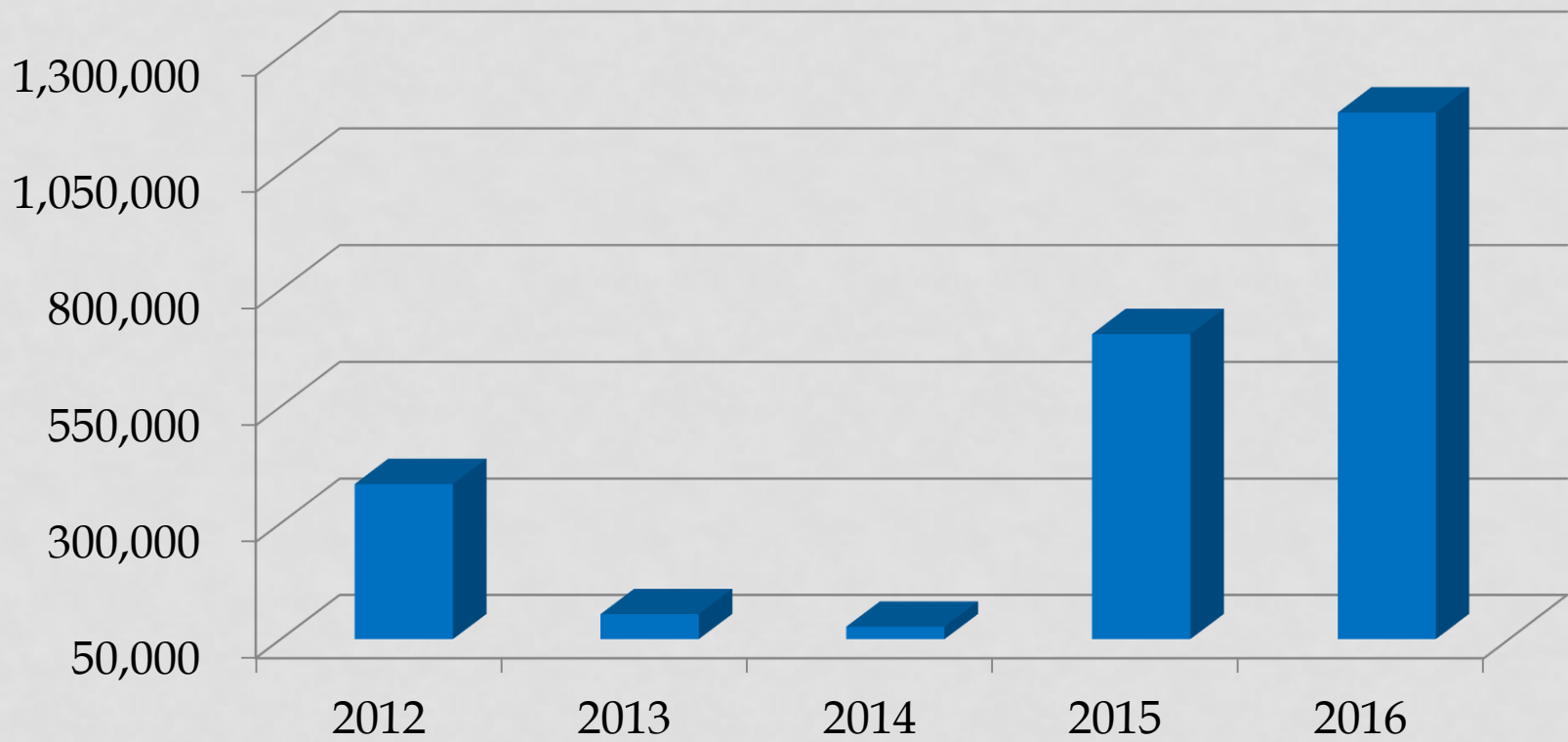
- Numerous items not listed here (please refer to pages 28 to 31 of management letter)

# INFORMATIONAL ITEMS

- De Minimis Property Tax Assessments
- Municipal Data Breach Protection
- Fraud Prevention Measures
- New Pension Standards
- Municipal Modernization Act

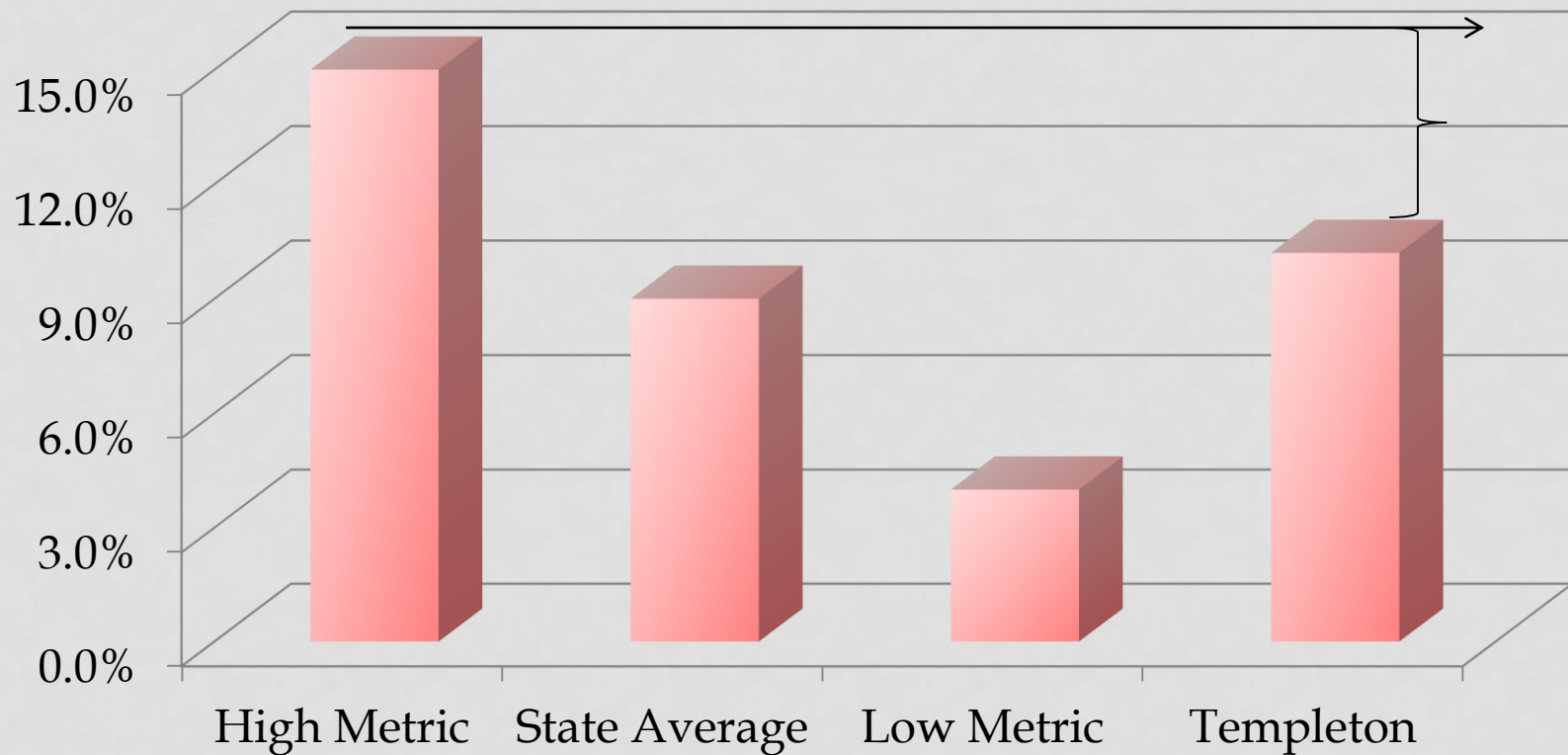
# ECONOMIC TRENDS

## Reserve Balances



# ECONOMIC TRENDS

## Reserve Ratio



# ECONOMIC TRENDS

- ❑ Reserves have increased since 2013 low. Currently a little higher than State average as a percentage of expenditures
- ❑ This is a benefit of the local economy and the Town's inability to use any free cash generated because balance sheet was never submitted
- ❑ Tax assignment also generated significant revenue but was never spent
- ❑ Town was fortunate as this could have gone the other way



# FUTURE PLAN

- ❑ Upon conclusion of Town Meeting vote in May; issue a BAN relative to the Elementary School, that will at a minimum, offset the current year capital projects deficit.
- ❑ If more can be borrowed this will begin to stabilize the Town's credit worthiness (First Southwest is currently working this process)
- ❑ Close fiscal 2017 books as soon as possible after June 30; goal is mid August
- ❑ Complete audit in September and have free cash certified in October

# FUTURE PLAN

- Raise deficits on fiscal 2018 DE1 that have arisen due to past debt service not raised properly (about \$450,000)
- Raise deficit from restricted for debt fund at Town meeting (approximately \$87,000)
- Raise remaining deficits (approximately \$212,000) from certified free cash
- Future budgets should incorporate proper betterment/tax amortization of sewer debt

# FUTURE PLAN

- Begin planning fiscal 2019 budget as this could be a challenge
- Solve Town Administrator situation
- Address the findings related to the Treasurer's Office

# QUESTIONS

