

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF UPTON, MASSACHUSETTS

Management Letter
Year Ended June 30, 2019



TOWN OF UPTON, MASSACHUSETTS

MANAGEMENT LETTER

**AS OF AND FOR THE YEAR ENDED
JUNE 30, 2019**

Table of Contents

Transmittal letter.....	1
Overview.....	2
Informational Items.....	3
Departmental Review.....	5



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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, 2019, 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
Certified Public Accountants
Woburn, Massachusetts
December 11, 2019

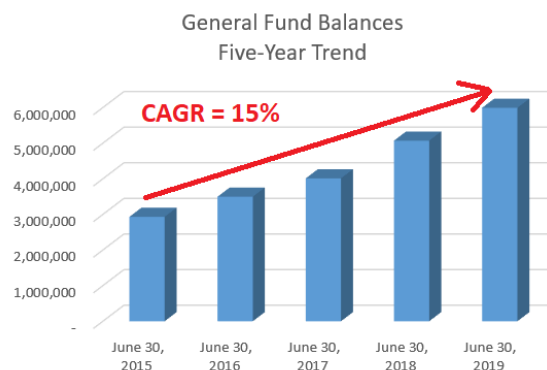
OVERVIEW

The U.S. economy continues to be strong as evidenced by low unemployment rates, rising wages, consumer confidence and an increasing workforce. International trade issues and tariffs appear to be the greatest threat to the nearly eleven years of consecutive economic growth.

On a more local level, the Federal Reserve Bank of Boston reports that the June 2019 Massachusetts unemployment rate was approximately 3%, which is far lower than the nationwide 3.7% rate. Average home price in Massachusetts increased approximately 3% year-over-year in fiscal year 2019. Real estate values are at record highs in much of Massachusetts, including many neighborhoods in the Town of Upton (the “Town”).

The Town’s financial condition at June 30, 2019 is good, as measured by the budgetary flexibility in its 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, 2019, the Town’s reserve ratio was approximately 20%, which is slightly higher than the prior year’s reserve ratio. Credit rating bureaus would consider the Town’s reserve ratio to be strong. Standards & Poor’s Financial Services LLC (“S&P”) assigns the Town an AA+ credit rating on its long-term general obligation bonds, which is one rating lower than AAA, its highest credit rating. This high credit rating enables the Town to enjoy very favorable terms in the municipal bond market.

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 approached \$4.6 million at June 30, 2019 and its total fund balance totaled nearly \$6.0 million. The Town’s general fund balance has been steadily growing. A five-year trend of the Town’s unassigned fund balance is presented in the table at right; over the past five years, the unassigned fund balance has increased over 15% annually.



The Town’s most significant long-term liabilities pertain to its net pension and other postemployment benefit liabilities, which total approximately \$15.8 million in the aggregate at June 30, 2019. The Town is a participating employer in the Worcester Regional Retirement System, or WRRS. The WRRS has ninety-nine individual contributing entities including the Town, whose proportionate share of the WRRS net pension liability was nearly \$9.2 million at June 30, 2019. The WRRS expects annual appropriations to increase by approximately 4% annually for the foreseeable future. The Town’s net other postemployment benefit liability amounted to approximately \$6.6 million at June 30, 2019. The Town’s OPEB trust is estimated to be approximately 8% funded at June 30, 2019, which is slightly better than the Massachusetts median for communities of the Town’s size and budget.

The Town’s long-term debt load is very manageable. The Town’s total long-term debt at June 30, 2019 is \$7,570,000.

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

Network Security

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.

The frequency of ransomware attacks on U.S. municipalities continues to rise. The Associated Press reported in August 2019 about a coordinated ransomware attack that affected more than twenty local governments in Texas on a single day by what was then believed to be perpetrated by a single source. 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.

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 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, council on aging and library; attacks within one of these remote departments can penetrate into the Town's critical financial systems. Additionally, the Town should strongly consider additional employee training in this area as an unacceptably high percentage of ransomware attacks are initiated from employees unknowingly activating the ransomware software.

New Lease Accounting Standard

In June 2017, the GASB released a new accounting standard relative to leases that will dramatically change the manner in which governments account and report lease transactions. This new accounting standard will apply to the Town's fiscal year 2021 financial statements.

Under this new accounting standard, many lease obligations that were previously accounted for by the Town as an expenditure similar to rent expense will now 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.

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 schools. 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.

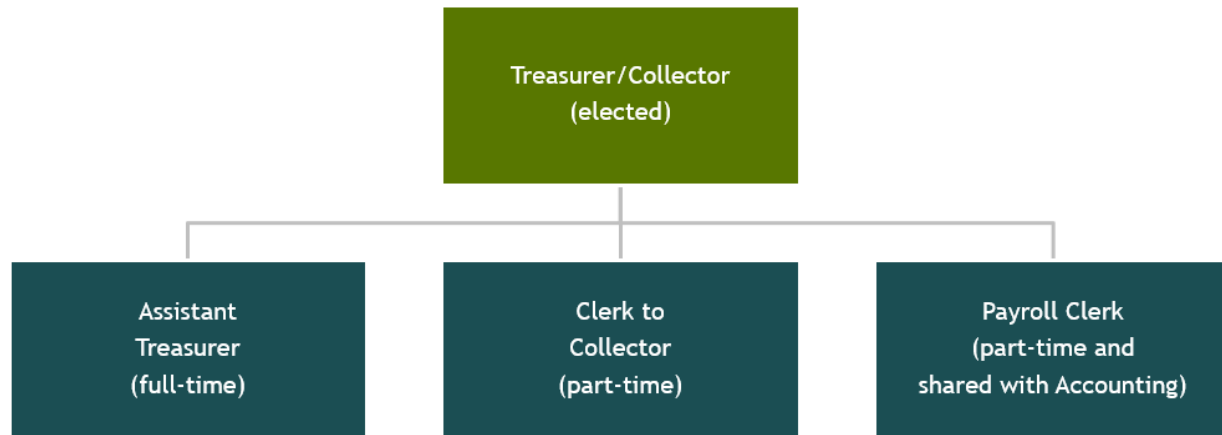
A similar lease accounting standard was recently adopted for nongovernment accounting with public companies adopting this lease standard beginning in calendar year 2019. There are numerous publications on the difficulties public companies experienced in this implementation. One of the most common problems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

DEPARTMENTAL REVIEW

In connection with the financial statement audit, we performed certain procedures surrounding the cash management and accounting for the Town's Treasurer/Collector (the "Department"). The departmental review is organized to first address the Department's general organization, then its billing and collection responsibilities and then its treasury responsibilities. This departmental review was limited to areas of accounting and financial significance and therefore does not focus on operational effectiveness or efficiency.

Organization

The Department is organized as follows:



The Town's Treasurer/Collector is elected. Massachusetts municipalities have been steadily transitioning these elected positions to appointments in recognition of the changing employment, financial, legal and regulatory climates. As a Town of approximately 8,000 residents, the qualified talent pool to stand election is quite limited. In contrast, if this position were appointed, the Town could advertise an opening in this position statewide and have an employment committee select the best individual to meet the Town's needs.

Since our initial engagement as independent auditors' to the Town, we have consistently recommended that the Town alert its voters as to the risk the Town faces should an unqualified individual become elected into this critical financial position. Some within the community may assert that this will effectively strip the voters of their rights; however, as an elected official, should a Treasurer/Collector be unable to perform his or her duties due to incompetence or other causes, it may be as long as three years before a new Treasurer/Collector can be elected as a replacement (which is not guaranteed). This lapse of time may prove to very detrimental to the Town, particularly if borrowing transactions are not completed correctly.

Recommendation – We believe that this risk is far too great and continue to recommend that the Town educate its voters on this risk and prepare a referendum to change this critical position from elected to appointed.

Written Policies and Procedures Manual

The Town adopted a Financial Policies and Procedures Manual in June 2017. Section 3 of this manual includes the general financial operating policies and procedures for the Department. We noted through conversation with the Treasurer/Collector that some of the Department's procedures in place are inconsistent with the written procedures in the manual. However, the written policies themselves are consistent with day-to-day practice.

Policies and procedures manuals are intended to be living documents and, as such, require periodic review and amendment.

Recommendation – We recommend that the Department review Section 3 and present modifications for consideration to the Town Manager and inclusion into an updated manual.

Billing Processes – Property Taxes, Excise Taxes and Utilities

Billings for (and the subsequent collections of) real estate, personal property and motor vehicle excise taxes represent the vast majority of the revenue transactions for the Department. The Town's water and sewer division bills for utility consumption; however, the Department is responsible for the collection of these fees.

The billing process for property taxes begins within the Assessors' Office, who will transmit pertinent billing data to the Town's outsourced processor Kelly & Ryan of Hopedale, Massachusetts ("K&R"). K&R will prepare quarterly property tax bills on a semi-annual basis; each mailing will include two quarterly remittances. K&R will transmit a file to the Treasurer/Collector and Assessor's Office with billing totals and other pertinent information together with a sample of as many as a dozen individual bills to assist the Town in better ensuring that the property tax billings are correct. The Treasurer/Collector will sign an acknowledgement that the Town has reviewed and approved the billing run.

K&R coordinates directly with the Massachusetts Registry of Motor Vehicles for the assessment and billing of motor vehicle excise taxes. K&R send the Treasurer/Collector commitment data for upload into the Town's Vadar system. The Treasurer/Collector will ensure that the totals per the commitment agree with the data in the Vadar system.

Utility services are billed by the water and sewer division directly in Vadar; the water and sewer division will send an approved commitment to the Treasurer/Collector. The Department is responsible for the collection and application of user payments in Vadar. The Treasurer/Collector will ensure that the totals per the commitments agree with the data in the Vadar system.

Collection Processes

Real estate taxes, which comprise approximately 97% of total property taxes committed annually, are generally collected in one of four manners:

1. Mortgage service organization, which the Collector estimates represents over 60% of the total dollar value of property tax collections.
2. Mail delivery to the Upton Town Hall.
3. Over-the-counter transactions at the Upton Town Hall.
4. Online payments with a debit card using UniPay, for which there are relatively very few users.

Generally, collections are processed by the Clerk to the Collector on a single daily batch. During high volume days, two or more batches may be used. For those paying their taxes over the counter, a receipt is provided to each taxpayer.

Collection data is entered into Vadar upon receipt. Daily batches are recorded into the Clerk to the Collector's manual cash book and cross referenced to adding machine tapes summarizing the daily batch totals. A copy of the daily batches is provided to the Town Accountant for reconciliation purposes.

Because the Department is closed on Fridays, collections received by the Department on the first business day of the subsequent week are retroactively applied to Thursday evening of the previous week.

Recommendation – A manual cash book is inefficient and prone to errors. The Massachusetts Collectors/Treasurers Association developed an Excel-based cash book together with the Massachusetts Department of Revenue many years ago that is in wide use throughout the Commonwealth. This Excel-based cash book also permits the timely reconciliation of bank accounts. We recommend that the Town transition from the manual cash book to an Excel-based cash book (or another suitable system such as QuickBooks), which should be stored on a shared network drive that is backed up daily as part of the Town's normal backup processes.

Departmental Receipts

Section 3.10 of the Town's 2017 Financial Policies and Procedures Manual requires that departments turn over their receipts, regardless of the dollar amount, to the Treasurer/Collector weekly. There are six departments who have the greatest volume of departmental receipt transactions:

1. Council on Aging
2. Fire Department
3. Health Department
4. Police Department
5. Recreation
6. Town Clerk

We understand that the Town Accountant, as part of his periodic budget to actual reporting processes, monitors departmental turnovers. We reviewed the fiscal year 2019 revenue transactions for each of these departments noting that these department regularly turn over their funds to the Treasurer/Collector.

Departments present their turnovers to the Treasurer/Collector, for which they sign off as to the accuracy and completeness of the "deposit." A count of the cash and checks is performed, and the turnover is signed off by the Treasurer/Collector or his designee. Two copies of the turnover are provided to the department, who maintains one copy and remits a copy to the Town Accountant.

The departmental turnover is entered into the manual cash book by the Clerk to the Collector.

Receivables Monitoring

The Treasurer/Collector will periodically review the quality of receivables several times over the course of a fiscal year. As we've noted in previous letters to management, receivables' balances have declined significantly over the past several years, which is indicative of better monitoring and collections.

Tax Title Processes

The Treasurer/Collector generally begins the tax title process each fall, which based on our experience is rather late in the year. The most efficient communities in the Commonwealth commence this process in mid to late May as the final quarterly property tax installment would have been due on or before May 1st.

The process first begins with an analysis of taxpayers' current property tax balances for which the taxpayers have balances for past years in tax title. This is referred to as the "subsequent takings" process. Unpaid amounts from the current property tax year are rolled into tax title together with committed interest.

Shortly after the subsequent taking process, the Treasurer/Collector will evaluate current balances for first time tax title takings. A demand letter is prepared, and a \$5 demand fee is assessed in addition to interest on the unpaid property taxes, which is due within 14 days. If the balance continues to go unpaid, the Treasurer/Collector will generally prepare a second mailing (about 7 days after the due date of the initial demand), which is internally referred to as the "intent to collect" letter, giving the taxpayer an additional 14 days to pay. If the balance continues to go unpaid, a "intent to advertise" letter will generally be mailed with a specified timeframe for advertising approximately 30 days after the intent to collect letter.

Tax delinquencies are advertised in the *Milford Daily News* and designate a place and time for the taking.

If unpaid after the advertisement and at the place and time advertised, the Treasurer/Collector will complete the taking in accordance with Massachusetts General Laws and assess an additional \$105 fee to the taxpayer's account to cover the Registry of Deeds fees.

Recommendation – The Commonwealth permits a demand fee to be as much as \$30. The Town currently assesses a \$5 fee, which is insufficient to cover the additional costs associated with three mailings. We recommend that the Town increase its demand fees to a more appropriate figure given the costs the Town incurs for these past due accounts. Receipts of these demand fees should be credited to the tax title revolving fund (see below).

In addition to the demand fees above, the Commonwealth permits municipalities to establish a tax title revolving fund (for which the Town has so established) to account for tax title attorney and other collection costs assessed to delinquent taxpayers (reference is hereby made to DOR IGR 16-101). These monies may be spent, without appropriation, by the Treasurer/Collector to pay out-of-pocket expenses associated with the tax title process. We understand that the Town has begun to assess tax title attorney fees to delinquent tax title accounts in fiscal year 2020, although it does not appear that this practice is consistently applied.

Recommendation – Upon receipt of the monthly legal invoices from the Town's tax title attorney, actual out-of-pocket costs incurred by the Town related to delinquencies should be applied to the delinquent taxpayer's account. Receipts of these out-of-pocket costs should be credited to the tax title revolving fund.

Tax Refunds

The Town will review taxpayer overpayments on a monthly basis within Vadar. For sizable overpayments, a voucher is prepared and a refund is processed through the Town's normal vendor warrant process.

Purchasing Card Transactions

Departments are provided a Town debit card to facilitate the purchase of municipal goods and/or services in an efficient manner. Departments are required to complete a voucher in a similar format as they would for any other vendor invoice transaction that is normal in the ordinary course of the vendor warrant process. The debit card account with UniBank functions as an imprest account; funds are replenished into the UniBank account through the Town's warrant process.

The Clerk to the Collector is the responsible party within the Department for reconciling debit card purchasing. The Clerk to the Collector uses QuickBooks to account for the activity in this account. The UniBank debit card activity is uploaded into QuickBooks for quick and near error-free transaction processing. The current process also easily identified purchasing activity for which departmental vouchers have not yet been presented to the Town Accountant for processing.

De Minimus Property Tax Exemptions

We reported a permissible property tax exemption several years ago related to small dollar personal property tax assessments that over one-third of the Commonwealth has taken advantage of. Massachusetts General Law permits the exemption of de minimus property tax assessments for personal property assessments of up to \$10,000 of assessed values. These are not lost revenues; rather, the remaining property tax accounts absorb these de minimus accounts. The Board of Assessors approved an exemption threshold of \$1,000 several years ago.

We reviewed the personal property tax transactions for fiscal year 2019 noting the following:

Total number of personal property commitments in 2019	139
Personal property taxes assessed in 2019	\$ 531,476
Personal property taxes assessed in 2019 - ten largest tax accounts	\$ 475,544
Ten largest accounts as a percentage of total 2019 commitment	89.5%
Number of personal property tax accounts with assessed values under \$10,000	68
Personal property taxes assessed in 2019 - assessed values under \$10,000	\$ 4,218
Low value personal property tax assessments as a percentage of total 2019 commitment	0.8%

Had the Town adopted a \$5,000 de minimus exemption threshold, an additional 51 personal property tax accounts with an aggregate fiscal year 2019 billing of \$1,985 would have been absorbed by the remaining property taxpayers. If the threshold were increased to \$10,000, an additional 17 accounts totaling \$2,233 would have been absorbed by the remaining property taxpayers, bringing the grand total to \$4,218.

This exemption would have resulted in less than \$0.50 per quarter in additional assessments to the average property taxpayer. However, the cost savings is likely substantial. Hard costs such as postage and processing by K&R, as well as the cost of subsequent mailings for past due amounts can be eliminated. Additionally, soft costs such as monitoring and following up on these accounts can be eliminated. Finally, the Town will periodically write off uncollectible personal property tax balances in accordance with Massachusetts General Laws; many of these writeoffs pertain to these insignificant personal property tax accounts.

Recommendation – We recommend that the Town reevaluate the de minimus personal property tax exemption threshold and increase it to \$5,000 at a minimum and as high as \$10,000.

Authorized Parties to Bank and Investment Accounts

The Treasurer/Collector indicated that he and the Assistant Treasurer/Collector are the authorized parties to each of the Town's bank accounts. However, the Treasurer/Collector is the sole authorized party to the Town's investment accounts maintained by Bartholomew & Company and RBC Wealth Management.

Recommendation – We recommend that the Town inquire with all its banks and financial institutions as to the identifies of all parties authorized to conduct business with the bank or financial institution. In instances in which there is a single authorized party, the Assistant Treasurer/Collector should be added.

Interest Maximization

In our previous letter to management, we identified a number of sizable bank balances that were not bearing interest over 1%. In fiscal year 2019, the Treasurer/Collector established two new banking relationships that yield over 1%. However, we continue to identify a number of accounts with little to no activity invested in bank accounts yielding less than 1%.

Recommendation – We continue to recommend that the Treasurer/Collector reallocate portions of the Town's excess deposits to higher-yielding bank accounts.

Cash Reconciliation Process

The Treasurer/Collector generally has cash reconciled to his cash book within 30 days of month end. This process has been performed solely by the Treasurer/Collector for many years; neither the Assistant Treasurer/Collector nor the Clerk to the Collector have been exposed to or trained to do this function.

Once reconciled, the Clerk to the Collector will reconcile the Treasurer/Collector's balances to Vadar (which is also performed by the Town Accountant).

Recommendation – We previously recommended the adoption of an Excel-based cash book (or another suitable system like QuickBooks). The Excel-based cash book used by many municipalities permits the timely reconciliation of all bank balances to the bank statements as it presents both a detailed transaction view as well as summarized versions to permit the timely reconciliation of the accounts. We recommend that the Treasurer/Collector evaluate the adoption of such a tool. Additionally, we recommend that the Treasurer/Collector train the Assistant Treasurer/Collector on the reconciliation process.

Potential General Obligation Bond Refinancing

The Town's first opportunity to refinance its existing long-term general obligation bonds will be in fiscal year 2021. The Town Hall renovation general obligation bonds will be available to refinance in fiscal year 2023/2024.

Recommendation – We recommend that the Town begin a dialogue with its outside bond advisors UniBank to develop a strategy for refinancing, which may save the Towns significant monies in future debt service costs.

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