

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF OXFORD, MASSACHUSETTS

Management Letter

Year Ended June 30, 2019



TOWN OF OXFORD, MASSACHUSETTS

**MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2019**

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Board of Selectmen
Town of Oxford
Oxford, 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 Oxford, 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
October 23, 2019

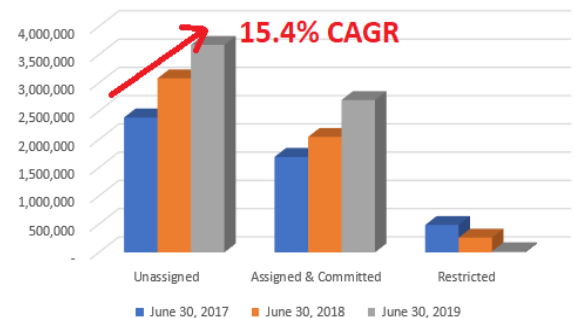
OVERVIEW

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 Oxford (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 9.7%, which is an increase over the prior year’s reserve ratio of 8.4%. Credit rating bureaus would consider the Town’s reserve ratio to be good. Currently, Moody’s Investor Services assigns an Aa3 credit rating to the Town’s general obligation bonds, which is its fourth highest rating and signifies that the Town has a very strong capacity to meet its financial commitments.

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 \$3.4 million at June 30, 2019. The Town’s unassigned fund balance has been steadily growing. A three-year trend of the Town’s general fund balances is illustrated in the table at right. Unassigned fund balance has been growing at over 15% annually over the past three years.



The Town’s current low level of debt coupled with the improvements made to its operations have given the Town much better budgetary flexibility to meet its growing needs. This budgetary flexibility also permits the Town to adopt an updated financial reserve policy, which can be used to establish reserve targets for rainy day funds like the Town’s general stabilization fund, capital improvement funds and OPEB funding. At June 30, 2019, the Town’s general stabilization fund balance was approximately \$586,000 and its OPEB trust fund balance was approximately \$4,241,000; the Town does not have a formal capital stabilization fund. The OPEB trust is relatively well funded in comparison to other Massachusetts communities, however the Town’s stabilization fund is not.

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

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 evaluate employee training options to assist it in mitigating this significant risk.

The Town's long-time IT director is retiring in late 2019. In preparation for this retirement, the Town has begun outsourcing its IT functions to two separate service providers – one for its fire and police departments and the other for all other governmental functions. We recommend that the Town meet with these service providers and develop a comprehensive network security plan.

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.

Trust Fund Review Completion

The Town completed an accounting system conversion in fiscal year 2019. In concert with this project, the Town completed an analysis of trust funds and combined dozens of trust funds and determined the original restricted position, or corpus, of the remaining trusts.

Fraud Prevention Measures

In our February 2, 2018 letter to management, we described the most common forms of fraud risk that towns of similar size and constitution as Oxford most commonly face. Some of the systems related items we discussed such as the review of personnel and vendor master files were completed by the Town as it implemented new accounting and payroll systems, which it rolled out on July 1, 2018. We continue to stress the need for the following:

- Developing a trend analysis of all revenue types in order to spot irregularities or anomalies; and
- Performing “spot audits” or business reviews for departments processing cash.

We refer you to our letter dated February 2, 2018 for more detailed discussions surrounding these matters.

Inactive Special Revenue Accounts

As previously reported, the Town maintains a significant number of special revenue funds that have had little to no activity in the past several years. At June 30, 2019, there were twenty-five special revenue accounts with an aggregate fund balance of \$124,544 with no activity in the last three fiscal years.

We continue to recommend that the Town Accountant evaluate all special revenue/revolving funds, particularly those without activity in the past three fiscal years, for relevancy. Inactive funds should be transferred to an appropriate active fund or the general fund based on the nature of the inactive funds.

Improvements Since Previous Letters to Management

Since our previous letters to management dated February 2, 2018 and January 8, 2019, the Town’s finance team has implemented several improvements to its accounting and financial processes and procedures. Some of the more notable improvements include:

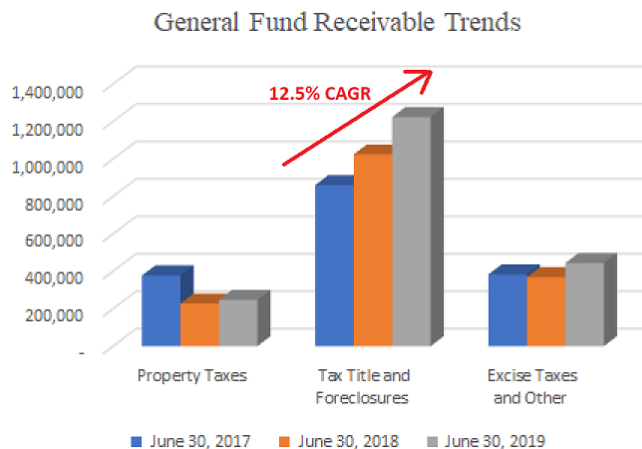
- Reducing the number of bank deposit accounts the Town Treasurer maintains;
- Transferring excess funds from low-yielding deposit accounts to better interest yielding deposit and investment accounts; and
- The adoption of written cash handling procedures for cash-handling Town and School departments.

FINDINGS AND RECOMMENDATIONS

Deterioration in General Fund Receivables

At June 30, 2019, gross receivables reported by the Town in its general fund totaled approximately \$1,914,000 versus \$1,620,000 at June 30, 2017. The gross receivables balances in the Town's general fund have increased 5.7% annually over the past three years, which has outpaced the growth in the Town's property tax base, which grew at 2.8% annually over this same period.

The receivable area with the greatest growth was the property taxes transferred to tax title, which grew annually at an approximate 12.5% rate over this three-year period as illustrated in the table above. Furthermore, this increase was experienced during a time period of robust economic growth within the Commonwealth and is in contrast to trends observed throughout much of the Commonwealth.



Rising receivables tie up available Town resources and have a negative impact on the Town's cash flows. We recommend that the Town dedicate additional resources to tax title collections including the evaluation of tax title assignment auctions.

Management's Response

The Town is actively pursuing the management of tax title accounts. The Town implemented the Vadar accounting system effective July 1, 2018. The tax title software module for Vadar was the last module converted from the previous accounting system. As a result, the Town lost as much as eighteen months of time to accurately evaluate tax titles and process foreclosures and/or tax title auctions/sales.

In fiscal year 2020, the Town has made strides in the management of these balances and has filed multiple land court proceedings. Additionally, the Treasurer will be filing "land of low value" foreclosures with the Commonwealth shortly.

Land parcels that may contain environmental contaminants will require additional attention from the Town. Some land parcels will have engineering tests performed to enhance their value at auction.

Finally, the Town has been evaluating tax lien sales. However, there exists the risk that the Massachusetts Legislature may pass new legislation that may affect tax title sales in the future.

Accounting and Management of Cable PEG Access Funds

The Town has historically recorded the fees it receives from Charter Communications for public, education and government access, or PEG access, into an agency fund. Expenditures to Oxford Access, the operator of the public access cable channel in the Town of Oxford, have been made from this agency fund under an agreement between Oxford Access and the Town.

After the passage of Chapter 352 of the Acts of 2014, the accounting and custody of PEG access funds was to be performed within the Town's general fund unless the Town established a PEG access enterprise funds or established a receipts reserved revolving fund; refer to Massachusetts Department of Revenue ("MA DOR") Informational Guideline Release ("IGR") 16-102.

The deadline for a municipality to adopt either an enterprise fund of receipts reserve fund was extended twice since this IGR was released in 2016. In its March 2018, the MA DOR stated that in the absence of a municipality adopting a PEG Access enterprise fund or receipts reserved revolving fund, all unspent PEG access funds should be transferred to a municipality's general fund.

We recommend that the Town transfer the unspent PEG access funds in its agency fund to the Town's general fund in accordance with MA DOR regulations. Additionally, we recommend that the Town adopt a receipts-reserved revolving fund in conformity to MGL Chapter 44 Section 53F 3/4. Finally, we recommend that the Town consult with its legal counsel to evaluate an amendment to its existing agreement with Oxford Access to better ensure a smooth transition in this process.

Accounting for Health Insurance Withholdings (Updated and Repeated from the Prior Year)

In our February 2, 2018 letter to management, we reported in detail regarding the Town's over accrual of certain employee withholding accounts, which were the result of fiscal year 2013 and 2014 accounting errors. These accounting errors resulted in the Town's general fund incurring more expenses than it should have. The fiscal year 2019, 2018 and 2017 financial statements were adjusted for these over accruals. In fiscal year 2019, the Town performed an internal evaluation of these accrual accounts and has developed a process by which it will recover these over accruals in its fiscal year 2020 accounting records.

We continue to recommend that the Town perform semi-annual reviews and reconciliations of these withholding accounts (September 30th and March 31st of each year are best as these months generally exclude seasonal and one-off transactions).

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