

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF OXFORD, MASSACHUSETTS

Management Letter

Year Ended June 30, 2018



TOWN OF OXFORD, MASSACHUSETTS

**MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2018**

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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, 2018, 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
January 8, 2019

OVERVIEW

The nationwide economic recovery (and in some sectors the economic boom) continued throughout fiscal year 2018. Employment figures and GDP continue to surpass expectations and the Massachusetts economy continues to prosper. In fiscal year 2018, the Town enjoyed significant new growth in both its residential real estate as well as its commercial/industrial property tax bases. Additionally, assessed property values increased over 5% in fiscal year 2019 from 2018.

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 \$3.1 million at June 30, 2018 and its total fund balance was nearly \$5.4 million. Overall, the total fund balance in the general fund increased approximately \$821,000 in fiscal year 2018, which was driven primarily by revenue growth. Included in the unassigned fund balance at June 30, 2017 was approximately \$452,000 in stabilization funds.

Liquidity in the general fund is often measured by comparing both the unassigned fund balance and the assigned fund balance to the current year's total fund expenditures. Credit rating bureaus often refer to this as a "reserve ratio." At June 30, 2018, the reserve ratio was approximately 8.4%. Furthermore, the total fund balance in the general fund approximated 12.8% of total fiscal year 2018 general funds expenditures.

The Town has a relatively low debt burden in its general governmental services relative to its normal revenues and expenditures, which affords it flexibility should its needs require.

The Town has undergone several cost savings initiatives and continues to seek additional revenue sources to assist it in planning for its future. The Town past funding of its OPEB trust fund puts its OPEB trust fund in a relatively strong position versus other Massachusetts municipalities. The Town's general stabilization fund is relatively low; however, the Town appropriated \$150,000 in fiscal year 2018 to bolster this "rainy day fund." The Town's general stabilization fund totaled over \$452,000 at June 30, 2018.

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

OPEB Adoption

As discussed in our February 2, 2018 letter to management, the Town was required to adopt a new accounting standard related to OPEB in fiscal year 2018. Since fiscal year 2009, the Town had been reporting an OPEB *obligation* in its government-wide and proprietary funds financial statements. Essentially, the OPEB obligation was the accumulation of shortfalls between the amount the Town should fund an OPEB plan (its annual required contributions) and the amount the Town paid on a pay-as-you-go basis. The adoption of the new OPEB accounting standards required the Town to actuarially determine the present value of its future OPEB *liability* and record this liability, net of any OPEB trust funds, in its government-wide and proprietary funds financial statements.

As expected, the adoption of this new accounting standard materially affected the Town's financial condition. A prior period restatement of approximately \$27.1 million was made to the beginning net positions of the Town's governmental activities and business-type activities.

The Town established an OPEB trust fund several years ago and has accumulated nearly \$4.0 million through June 30, 2018. As it stands at June 30, 2018, the OPEB trust fund is approximately 7.9% funded.

Termination of the Community Center Enterprise Fund

As discussed in our letter to management dated February 2, 2018, the Town's Community Center enterprise fund appeared incapable of being self-sustaining. In fiscal year 2018, the Town's general fund transferred over \$230,000 to the Community Center to supplement its operations in addition to nearly \$100,000 paid by the general fund for Community Center debt service.

The Town's governing body voted to terminate this enterprise fund effective July 1, 2018 (i.e., fiscal year 2019).

Old Encumbrances Carried Forward

As discussed in our letter to management dated February 2, 2018, the Town's encumbrances included many old items that had been carried forward from dates as far back as 2011. We are pleased to report that general fund encumbrances reserved at June 30, 2018 are very current.

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. In fiscal year 2018, some of these inactive special revenue funds were utilized to assist the Town in funding its operations. However, at June 30, 2018, there were forty-two identified special revenue accounts with an aggregate fund balance of \$159,195 with no activity in either fiscal year 2018 or 2017.

As there has been turnover in the accounting function, the genesis and intent of many of these funds will need to be investigated. We recommend that the newly hired Town Accountant evaluate all special revenue/revolving funds, particularly those without activity in the past two 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.

Trust Fund Review

As previously reported, the Town has a significant number and dollar value of trust funds whose principal is restricted (in many cases permanently) for various purposes. We recommend that the Town investigate all its trust funds and determine the specified use of the funds and the restricted amounts of each fund.

Maximizing Investment Returns

Over the past ten years, the interest earned on bank deposits have not kept pace with inflation. Many bank depository accounts currently return less than 1%. However, there are a growing number of banks and financial institutions like the Massachusetts Municipal Depository Trust, or MMDT, that are financial stable and offer very liquid short-term investments with annual interest rates approaching 2%.

A review of the Town's bank deposits at June 30, 2018 reveals that a significant portion of its deposits are in depository accounts bearing interest at 1% or less per annum. We recommend that the Town Treasurer evaluate the Town's depository balances and accounts and evaluate the possible benefits of reallocating portions of the Town's excess funds to stable financial institutions that offer very liquid short-term investments.

Volume of Bank and Investments Accounts

As previously reported, the Town Treasurer maintains forty-six individual bank and investment accounts (previously forty-five) with fourteen separate financial institutions (previously fifteen). Diversifying the custody of the Town's cash and investments is a prudent investment principle. However, for the types of accounts and dollar amounts maintained by the Town, the maintenance of this many accounts and financial institutions can become burdensome and slow down the periodic closing process.

Many local financial institutions have strong financial positions and provide depositors with additional depository insurance to fully cover a depositor in the event of a bank failure. Consolidation of some accounts, particularly with banks in which the Town maintains a single money market or savings account may provide efficiencies within the Town's treasury function without greatly increasing custodial credit risk.

Updates to Accounting and Financial Operations Policies and Procedures Manual

The Town drafted an accounting policies and procedures manual several years ago. With the implementation of Vadar for its accounting system effective July 1, 2018 and Harpers Payroll for its payroll processing and human resources technology, these manuals will require updating. This is also a time to address disaster recovery and other technology processes, which were not included in the previous accounting manual.

Formal policies and procedures play a critical role in any internal control system. Furthermore, in periods of personnel transition such policies and procedures can prove invaluable and assist in these often-difficult transitions.

We note that the Town has very good financial and technology processes. We recommend that the Town's newly hired finance director endeavor to complete this draft manual and tailor it to meet the Town's current needs.

**FINDINGS AND RECOMMENDATIONS
UPDATED AND REPEATED FROM THE PRIOR YEAR**

Accounting for Health Insurance Withholdings

In our February 2, 2018 letter to management, we reported in detail regarding the Town's overaccrual 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 2018 and 2017 financial statements were adjusted for these overaccruals, however the Town has not yet made the appropriate internal accounting entries to remedy these balances.

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). Additionally, the Town should make the appropriate correcting entries to its accounting records.

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