

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF PAXTON, MASSACHUSETTS

Management Letter

Year Ended June 30, 2022



TOWN OF PAXTON, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2022

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TRANSMITTAL LETTER

The Honorable Members of the Board of Selectmen
Town of Paxton
Paxton, 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 Paxton, Massachusetts (the "Town") as of and for the year ended June 30, 2022 (except the Paxton Municipal Light Department, which is as of December 31, 2021 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.

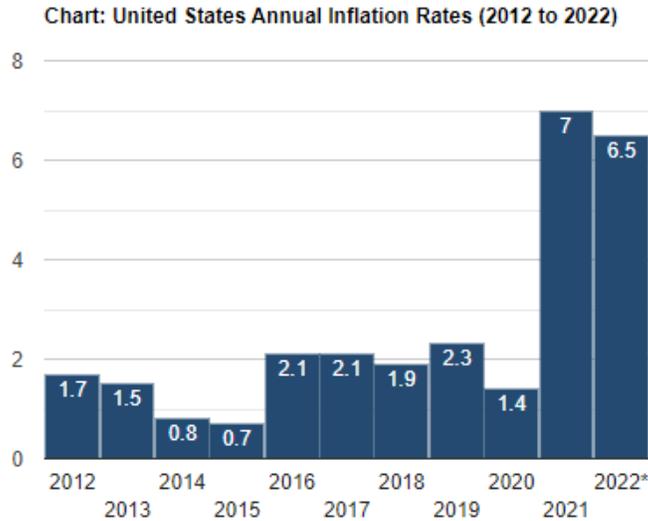
This communication is intended solely for the information and use of management, the Board of Selectmen, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Roselli, Clark & Associates".

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
February 3, 2023

OVERVIEW

COVID-19 health and public safety restrictions were, for the most part, lifted during fiscal year 2022 and the Town's operations resumed to near normal levels for the first time since fiscal year 2019. However, inflation in energy, materials and general consumables has been historically high, which affects the cost to operate the Town. The table below illustrates the rise in inflation over the past ten years:



SOURCE: www.usinflationcalculator.com

Employment in Massachusetts has been strong in calendar year 2022. The Massachusetts Executive Office of Labor and Workforce Development reported an unemployment rate of 3.3% for December 2022. Employment levels in the industries hardest hit by the COVID-19 pandemic such as food, leisure, travel and entertainment have seen significant improvements. The Massachusetts real estate market continues to be robust as evidenced by the historic highs in residential housing values.

Paxton has historically been very budget conscious as it does not have significant stabilization funds to help it weather fiscal storms. This cost management, together with the receipt of significant federal and state funds over the past several years, has resulted in a compound annual growth rate of nearly 6.9% to the Town's general fund since 2018.

At June 30, 2022, the Town reported a total fund balance in its general fund of approximately \$2.1 million. This fund balance represented over 14% of total fiscal year 2022 general fund expenditures, which is in line with historical performance.

The remainder of the report reflects informational items and findings and recommendations. 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

Controls Surrounding Petty Cash

The police and council on aging utilize petty cash in their day-to-day operations. In fiscal year 2022, there were forty-one petty cash transactions recorded in the Town's underlying accounting system totaling approximately \$1,000. While the dollar amount of these transactions is not significant to the Town's overall operations or financial condition, the use of petty cash is an area of heightened concern due to its general nature.

The Town does not have a process to require periodic petty cash counts and reconciliations.

Petty cash transactions should operate in a similar fashion as a \$0 imprest account. In short, a petty cash dollar limit should be established by the Select Board. The police and council on aging should periodically replenish petty cash by submitting a replenishment request that is accompanied by receipts/invoices that support the expenditure of petty cash funds and include this in their normal vendor warrant process, which is the current control in place.

Line-Item Budgeting

The Town adopts a line-item budget that is very restrictive and increases the need to submit transfer requests to the finance committee. It is common within the Commonwealth of Massachusetts, even recommended to the Town by the Division of Local Services of the Massachusetts Department of Revenue in September 2006, that abbreviated budget authorizations be used for all departments.

We recommend that the Town evaluate the use of abbreviated departmental budgets authorizations in future budgets.

General Procurement Considerations

We understand that the Town has recently begun conducting procurement training at the department head level and applaud these efforts. Procurement of governmental goods, services and construction is governed by Massachusetts General Law and there are many resources available to the Town from the Inspector General's Office to assist it in complying with procurement law.

In connection with our audit procedures, we requested the procurement compliance documentation for a sample of transactions in excess of \$10,000. The Town was unable to produce support for several requests; transition in personnel may be the primary contributor to this. We recommend that all procurement compliance documentation be maintained in the Town Administrator's office.

Electric Department Bill Processing

The Town utilizes the Paxton Municipal Light Department to bill, collect and account for its water and rubbish disposal services. The Town's current accounting system has the capabilities to complete these transactions.

We recommend that the Town *evaluate* transitioning from its current billing and collections process by the Paxton Municipal Light Department to one in which the Town Collector is responsible for these activities. This is a complex process and ultimately the Town may decide to continue using the Paxton Municipal Light Department to continue billing these services as it has the capabilities to perform these tasks monthly.

New Technology Subscription Accounting Standard

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for the Town beginning in fiscal year 2023. Under this new accounting standard, an SBITA is a contract that "conveys control of the right to use another party's IT software, alone or in combination with tangible capital assets, as specified in a contract for a period of time in an exchange or exchange-like transaction."

In laymen's terms, software purchased by the Town that is hosted by the software vendor (which is commonly referred to as software as a service, or SaaS, arrangements) under an agreement that is more than one year likely qualifies for accounting under this new standard.

The Town should evaluate all *material* software hosting arrangements. These contracts should be gathered and the Town should create a listing of each material software hosting arrangement that includes key data points such as software name, vendor name, subscription start and end dates, annual required payments and renewal options, if any.

General Fraud Considerations (Annual Update)

The frequency of municipal fraud in the Commonwealth continues to rise. Municipal fraud is primarily perpetuated through (1) theft of departmental receipts, (2) payroll fraud and (3) vendor fraud.

The Town has implemented a number of measures to better ensure that it meets its operating objectives including enhanced communications between department heads, the recent adoption of a comprehensive financial policies manual, procurement training, timely review of budget to actual operating results and increased oversight and review of vendor and payroll warrants within the Town Administrator's offices. The Town should consider implementing some additional controls to further mitigate the risk of fraud including:

- a) Period "spot audits" of cash receipts processes at individual departments by the Treasurer's office (the Town Accountant is a part-time position in the Town).
- b) Developing a multi-year trend analysis of all revenues to better identify trends and spot anomalies.

Network Security, Cybercrime and Phishing (Annual Update)

While conducting audit field work, we discussed recent municipal cybercrime and phishing scams with accounting and treasury personnel. In short, the sophistication of these types of crimes is increasing, which greatly exposes all municipalities, regardless of size.

In terms of general network security, ransomware continues to affect organizations of all sizes, including municipalities with the profile of Paxton. 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. Furthermore, through its insurer, Town employees has participated in cyber security training. The Town engaged a third-party information technology provider to assist it with its general computer environment several years ago. 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 and the library; attacks within one of these remote departments can penetrate into the Town's critical financial systems.

With respect to phishing scams, we continue to remind accounting and treasurer personnel that changes in payment methods or requests for personally-identifiable information requested via email or other electronic means should always be corroborated with individual employees (in the case of payroll) or vendors. Wherever possible, changes to payroll payment methods (and withholdings) should be completed in person by the employee with Treasury personnel.

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