Powers & Sullivan, LLC
CPAs AND ADVISORS

TOWN OF BILLERICA, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2023

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CPAs AND ADVISORS

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To the Honorable Select Board
Town of Billerica, Massachusetts

In planning and performing our audit of the financial statements of the Town of Billerica, Massachusetts ("the Town"), as of and for the fiscal year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures 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. We consider the following deficiency in the Town and School department's internal control to be a material weakness. As described on page 2, the School Department uses an accounting ledger system that is completely separate from the Town's official accounting ledger system.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, material weaknesses or significant deficiencies may exist that were not identified.

Additionally, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Town personnel and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Powers & Sullivan, LLC

April 30, 2024

TOWN OF BILLERICA, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2023

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Material Weakness Deficiency - Unresolved

SCHOOL DEPARTMENT AND TOWN ACCOUNTING SYSTEMS

Comment

The Town and School both use MUNIS Accounting software and for years have maintained separate databases. This has always weakened internal controls but Town and School had procedures in place that reconciled the balances on a somewhat regular basis. In both fiscal years 2022 and 2023 the reconciliation of these separate ledgers was not completed timely and led to delays in closing on a monthly and yearly basis as there were material unresolved differences. This finding is considered a material weakness.

Subsequent to the end of fiscal year 2023, the Town and School engaged another CPA firm to perform a review of the School's accounting operations. On February 28, 2024 they issue their reports to both the Town Manager and Superintendent of Schools. Their first finding and recommendation related to the internal control risks of continuing to operate using separate databases. They stated the following:

- Two databases create additional risk to internal controls, the inability to rely on financial information, and a duplication of effort that comes with maintaining two separate databases.

- They recommended that the Town and school get on the same MUNIS database and update the chart of accounts to reflect the needs of both the Town and School. Until the databases are combined the Town and School must perform a formal reconciliation on a monthly basis.

Their observations and recommendations support our finding and recommendation. The following paragraphs will identify some of the problems that resulted in the material weakness.

To properly reflect activity of the School Department within the Town's official MUNIS database, it is required that various journal entries be created manually, rather than being system generated, and posted by the Town Accountant. The Town Accountant is not always aware of when an adjustment is needed until informed so by the School Department. The lack of formal policies and procedures to ensure adequate communication of the need to post these entries is a material weakness. The Town Accountant is responsible for maintaining accurate official ledgers and proper internal controls. However, the current process, relative to this matter, appears to be impeding the Town Accountants ability to maintain a proper system internal controls over financial reporting. This process also appears to be administratively burdensome, a duplication of effort between the School Department and the Town Accountants' Office and increases the possibilities of errors and omissions. The next paragraph demonstrates the material errors that occurred in fiscal year 2023 with the current process.

During fiscal year 2023, the School Department posted journal entries to reclassify expenditures within its' general fund appropriation accounts and between various grant and revolving funds; however, these entries were not communicated to the Town Accountant until after fiscal year end. Because of this, when the ledgers that support the financial statements and schedule of expenditures of federal awards (SEFA), were initially provided to us for audit, certain education related grant funded expenditures appeared under-stated. The material errors were not identified using the existing internal control policies and procedures. The only reason these errors were corrected was due to our audit procedures. Left uncorrected the Town was at risk that Free Cash would be certified at an incorrect amount; the Schedule A filed with the State would be in error; financial statements would contain material errors; and the Schedule of Federal Awards would also contain material errors.

Having a combined general ledger database, for all Town departments, would provide an accurate representation of the Town's financial position throughout the year which can be relied on by all officials to make key budget decisions on a timely basis. It will also enhance control over reporting, prevent potential delays in providing various oversight agencies with necessary financial data, help to ensure that the situation does not repeat itself, and eliminate duplication of effort between the School Department and the Town Accountants' Office.

Recommendation

Both our firm and the other CPA firm recommends the Town and the School Department begin the process of merging the two distinct databases into one database. Most all other municipalities utilize a single MUNIS accounting system database and the chart of accounts meets the internal needs of the Town and School to comply with their State and Federal mandated reporting requirements and regulations.

Until the two databases are merged, monthly reconciliations between the activity recorded to the School Department database and the Town database must be performed and documented and agreed to between the departments. Doing so will mitigate the potential for errors and omissions. The development and implementation of a policy and procedures manual that correcting the deficiencies noted to substantially eliminate the possibility that errors occur and remain undetected.

Prior Year Comments - Resolved

OPEB TRUST FUND CONTRIBUTION TIMING

Comment

The Town's May 2021 Annual Town Meeting voted a transfer to the OPEB Trust fund of $1,749,006. While this transfer took place within the Town's general ledger, the corresponding bank transfer did not take place until March 2023. While the transfer ultimately took place, it took many months to complete and therefore the OPEB Trust Fund was not earning interest on the additional contributions.

The Town's OPEB actuary accounted for this pending transfer within the fiscal year 2022 valuation that calculated the Town's net OPEB liability.

Recommendation

We recommended that the Town implement procedures to ensure any necessary bank transfers take place when voted at Town meeting to ensure interest can be earned and credited to the appropriate fund.

Status

Resolved. The bank transfer to the OPEB Trust fund was made timely in 2023.

DUPLICATE PAYMENTS

Comment

During fiscal year 2021 testing of twenty-five adjusting journal entries, we noted that three of the entries were processed due to requests by the School Department to void vendor checks totaling approximately $6,700. The voiding of checks was necessary due to duplicate payments having been processed to vendors. One of the checks was determined to be a duplicate only when the vendor reported the issue.

It can be difficult to recover funds when a payee has been paid in error. Also, over the course of time, erroneous payments can distort budget to actual analysis which could lead management to make certain budget decisions that, absent the duplicate payments, may not have been made. The presence of duplicate payments suggests that current controls and processes may not be functioning as designed.

Recommendation

We recommended the Town and School Department review current processes and procedures to determine how the duplicate payments occurred and implement appropriate corrective changes to current procedures to ensure duplicate payments are avoided in the future.

Status

Resolved. The Town and School Department have implemented procedures to ensure that duplicate payments cannot be made for the same invoice.

HEALTH INSURANCE ENROLLMENT VERIFICATION

Comment

The Town's sponsors an employee and retiree health insurance plan for its' employees and retirees. The plan is funded through payroll withholdings, health insurance appropriations from the Town's general fund, and assessments that appear on the Town's cherry sheet.

We note that regular documented reconciliations of employee enrollment census data maintained by health insurance providers to employee payroll deductions has not occurred recently. Since enrollment data maintained by the health insurance providers drives plan premium costs, it is important that such reconciliations occur.

Also, while testing health insurance enrollment census data that serves as the basis of Town's OPEB calculation, we noted certain attributes such as marital status or number of family members, are not supported by health plan enrollment information maintained by the Town.

Recommendation

We recommended the Town implement a process for documenting the reconciliation of health insurance enrollment data on file with the Town to data maintained by the health insurance providers. This reconciliation should occur on a regular basis. The reconciliation should include reviewing provider data to make sure that the Town is only being charged for current employees and beneficiaries and retirees. If a health insurance enrollment audit has not been conducted recently, we recommend that the Town engage the services of a third party to conduct the audit.

Status

Resolved. The Town conducted a thorough review of the health insurance enrollment data in preparation for the OPEB valuation completed in 2023. The Town's enrollment data was reconciled with the enrollment data maintained by the health insurance providers, and reconciliations continue to occur monthly into fiscal 2024. The Town has also improved its processes regarding the collection and retention of required documentation from new plan members and retirees. Testing of the enrollment data and required documentation will continue in 2024.

Other Prior Year Comments

MOTOR VEHICLE EXCISE TAX RECEIVABLES

Comment

The Town is carrying motor vehicle excise tax receivables that date back to 1988 within the general ledger and department records. For accounts that cannot be flagged at the Registry of Motor Vehicles, the likelihood of collection is significantly diminished the longer each receivable remains outstanding. Motor vehicle accounts that have been flagged with the Registry of Motor Vehicles may result in collections at some point in time; however, experience indicates that those collections will be not significant to the total excise taxes receivable outstanding.

Recommendation

We recommended the Town continue efforts to determine which receivable balances can be deemed uncollectible and therefore written-off of the Town ledgers. The process of writing off a receivable does not extinguish the taxpayer's obligation to pay, but it will help the Town by streamlining account management and the reconciliation processes. Going forward, the Collector should continue to review and write off uncollectible receivables on an annual basis, as appropriate.

Status

During fiscal year 2023 and continuing into fiscal year 2024, the Town began the process of determining which individual accounts are no longer likely to be collected. We will follow up on this matter during the fiscal year 2024 audit.

EMPLOYEE REIMBURSEMENTS

Comment

We sampled employee reimbursements made during the year and noted the following:

- Employees were being reimbursed for items that were ordered through on-line retailers, using personal credit cards, and then having the items shipped to their house;

- In some cases Town employees were being reimbursed for sales taxes paid as a result of ordering goods on-line without the Town's tax exempt number. Most of the items acquired on-line can be acquired through the use of vendors on statewide purchasing contracts that the Town has access to;

- Using personal funds to acquire gift cards to area merchants, giving the cards to vendors and/or volunteers and then being reimbursed for amounts loaded onto gift cards.

Discussions with finance personnel indicate that policies that exist are not in written form. We have been told that Department heads have been informed of the policies; however, reliance on verbal communication in anticipation of adherence to such policies is not sound business practice.

Recommendation

We recommended that management develop a comprehensive written policy that addresses the reimbursement of costs incurred, by employees, on behalf of the Town. The policy document should, once adopted, be distributed to all employees.

Status

Town departments have limited the number of employee reimbursements by discouraging purchases with personal credit cards whenever possible. The Town maintains written policies addressing employee reimbursements; however, these policies are in draft form. We recommend that the Town formally adopt the draft polices as an official document.

AGENCY BOND ESCROW ACCOUNTS

Comment

The Town maintains several escrow accounts as the Town requires land developers and other contractors working within the public way to remit funds to be held in escrow. The escrow funds ensures that the Town has funds to expend to address immediate public health, public safety or general infrastructure concerns, if the developer or contractor is unable to complete the project.

Recommendation

We recommended that a review of all escrow holdings occur so that a determination can be made as to whether or not the escrows are still necessary. For those escrows that are deemed to be unnecessary, a plan to return the close out the escrow account should be developed. Furthermore, a system should be developed to ensure that escrows accounts are regularly reviewed and closed out regularly.

Status

At June 30, 2023, the Town held roughly $2.3 million of public works bond escrows, board of health bonds, conservation commission deposits, planning board deposits and other various escrows. Many of the general ledger account balances have not changed in years. Some of the deposits date back to projects initiated as early as 2001.