



August 22, 2017

Mr. Timothy J. King  
Town Administrator  
Westport Town Hall  
816 Main Road  
Westport, MA 02790

Dear Mr. King:

Recently, the Director of Accounts had a conversation with Westport's outside auditor, Roselli, Clark & Associates, informing the Division of Local Services (DLS) of the town's FY2016 audit results and their ongoing financial management concerns. Prompted by this phone call, representatives from the DLS Bureau of Accounts and Technical Assistance Bureau met on July 21, 2017 with the town administrator, town accountant, treasurer, and collector. Based on this meeting and subsequent information, it was discovered that there was a significant backlog in cash reconciliations, a lack of proper segregation of duties among finance staff, and other operational deficiencies, many of which stem from the treasurer's office.

Over the years, Westport has received guidance from DLS and others regarding its financial management shortcomings. In 1991 and 2011, the Technical Assistance Bureau issued a detailed Financial Management Review highlighting the need for stronger management and improvement financial operations. In 2005, a report by the UMass Dartmouth Center for Policy Analysis recommended that Westport address its highly decentralized and fragmented form of municipal management. Since at least 2012, the town's outside auditor has issued management letters that comment repeatedly on the need to improve financial operations. More recently, Westport joined the Community Compact program and will be provided a grant to be used to study the town's financial management structure and to deliver financial policies.

A list of current concerns, potential repercussions, and immediate recommendations are outlined below:

**Concerns:**

Cash and Reconciliations: Daily work is not being completed timely; specifically bank and general ledger cash reconciliations have not been completed since June 2016. This backlog in activity is a major contributing factor that prevents the town from initiating the FY2017 audit field work.

The treasurer reports that he handles the daily cash. He takes department turnovers at the counter, verifies the amount to the turnover slip, prepares the deposit slip, delivers deposits to the bank, and posts to the SoftRight financial system within the month. DLS expressed concern regarding the lack of segregation of duties in handling funds and, although discussed at length, the treasurer did

not seem concerned. In addition, the treasurer has failed to reconcile the cashbook to bank statements since April 2016 when the former assistant treasurer left town service. This forced the town accountant to conduct the bank reconciliations for the last two months of fiscal year in order to close the books and complete the audit. The outside auditor has since reviewed the accountant's work, and commented on the lack of segregation of duties in their FY2016 management letter, recommending that the town accountant cease from performing this function.

Debt: The treasurer is responsible for managing debt and handling continuing disclosure. This spring, the town authorized new debt for a police station. The treasurer has done preliminary work with Westport's financial advisor (Lynne Foster, UniBank Fiscal Advisory Services), but in the absence of timely cash information and no cash flow budgeting practice, DLS has concerns about his ability to manage the project's financing.

Payroll Clerk: The treasurer hired a new full-time clerk this past December who is responsible for managing employee benefits and the biweekly payroll process. The previous clerk, who continues to provide support upon request, trained the new clerk to input payroll on an exception basis and produce necessary reports. The treasurer reviews the clerk's work and verifies payroll figures with the town accountant before sending to the bank. In the off week, the clerk codes and posts benefit changes. This spring, the town's open enrollment was more complex and resulted in many employee changes due to the collectively bargained change to the employer/employee percentage share of the health insurance cost, which reduced the town's premium. The treasurer monitors the changes and makes sure the town is in compliance with the Affordable Care Act (ACA).

DLS contacted the Bristol County Retirement System (BCRS) about payroll deduction information. BCRS reports that it has not received timely and accurate information from the town for more than a year. BCRS requires timely submittals after each pay period, but Westport's are generally late. The most recent submissions were made on August 10<sup>th</sup> for the July 29<sup>th</sup> payroll. The reports received are often returned to the town because the information is incorrect and/or not signed. As a result of these delays and errors, Westport employees are contacting the county about retirement counseling rather than speaking with the treasurer's office directly as they should. BCRS cannot handle new retiree requests until all deductions for the retiree are processed.

In reviewing the town's balance sheets for the last few years, we noted the balance in the employee/retirement contributions agency account that should otherwise be turned over to BCRS.

6/30/14: \$ 58,007.55

6/30/15: \$341,779.65

6/30/16: \$243,112.73

In addition, BCRS informed DLS that Westport paid its full, discounted FY2018 retirement assessment of \$2,315,199 (savings of \$43,199) on August 3<sup>rd</sup> after having received a past due invoice. Based on past precedent, Westport was billed the undiscounted semi-annual payment of \$1,179,199, plus late interest of \$7,761.71. When the invoice was received, the town accountant called to report a check was drawn and posted on July 21<sup>st</sup> and wanted to know why they received the past due invoice. BCRS told the town accountant nothing had been received, and that the check was eventually located unsecured on a desk in the treasurer's office. When the treasurer appeared at BCRS' office, he delivered the check, stated he had not received an invoice, and requested that the retirement board grant the early payment discount and waive the late interest. BCRS next meets on August 30<sup>th</sup> and the request on the discount and late interest is on the agenda.

## **Repercussions:**

The FY2016 audit is dated May 4, 2017, after the Federal Single audit deadline of March 31<sup>st</sup>. When all required information needed to complete the Single Audit is not available within the prescribed timeframe, the town could be considered a high risk auditee pursuant to guidance by the Office of Management and Budget. Given the current delays and backlog, the situation could worsen and Westport could qualify as a high risk auditee. This results in additional required audit testing, may increase audit costs for the town, and could also make the town ineligible for some federal aid.

FY2017 audit fieldwork cannot be started until the treasurer posts cash and reconciles to bank statements and the accountant's general ledger. The objective of an audit is to obtain independent assurance that a community's year-end financial statements are reliable, accurate, and complete. An audit also helps to ensure that financial checks and balances are in place to protect public assets. Failing to produce timely and accurate statements for audit review could erode taxpayer confidence in government operations, or worse, not detect significant failings and missing assets.

The town's continued delays, report problems, and resulting late submission of audits will likely downgrade its credit worthiness, raise borrowing costs, and impact continuing disclosure requirements.

The late retirement assessment payment and the unsecured \$2,315,199 check raise additional concerns. The invoice's receipt should have triggered it being placed on the warrant, and if the treasurer reviewed and funded the warrant, then the \$2.3 million should have been noticed at that time. Since the treasurer did not mail or secure the check, the town was exposed to considerable risk.

We continue to have significant concerns about Westport's fiscal condition and will therefore closely monitor the financial situation of the town. Due to noted significant deficiencies and the lack of internal controls in the Treasurer's office, the Director of Accounts is requiring FY2017 audited financial statements before the certification of the FY2018 free cash. All cash and assets must be properly accounted for and reconciled as well as identifying and provided for any deficits. Additionally, any deficits must be addressed by town meeting action or raised on the FY2018 recap.

## **Immediate Recommendations:**

Obtain Interim Help: A professional consultant or treasurer from another town with strong skills and demonstrated abilities should be hired to help address the back log of work. It is essential that the treasurer's office maintains control of cash and reconciliations for daily operations, especially as the town embarks on the construction project.

Find a Mentor: the treasurer needs to contact the MCTA about getting a peer who will survey current management and operations, provide training and helpful tools for the treasurer and staff to meet the legal obligations of the office and produce results, and help streamline and automate current activities. With effort and training, it is DLS' hope that the office will perform and begin mitigating management letter comments.

Develop a Weekly Calendar: The treasurer needs to identify the responsibilities of the office, their frequency, and how to prioritize them.

Conduct regular finance team meetings: The town administrator should hold biweekly meets to develop goals to accomplish, assign responsibilities and deadlines, and monitor progress. The group should provide monthly updates jointly to the selectmen and finance committee.

Many DLS and auditor recommendations can only be implemented if there is sufficient determination and cooperation at all levels of local government. We expect to see progress in the implementation of these recommendations. We also encourage you to review the recommendations contained with the Financial Management Review completed for the town by our Technical Assistance Bureau back in 2011. I welcome the opportunity to come and discuss our concerns further jointly with the board of selectmen and finance committee. Please provide me with dates for such a discussion that work for both bodies and I will arrange my schedule accordingly.

Sincerely,

*-Marie Jane Handy*

Marie Jane Handy  
Director of Accounts

CC: Steven J. Ouellette, Chairman Board of Selectmen  
Senator Michael J. Rodrigues  
Representative Paul A. Schmid, III  
Sean R. Cronin, Senior Deputy Commissioner for Local Services  
Zack Blake, Chief, Technical Assistance Bureau  
Thomas Guilfoyle, Supervisor, Bureau of Accounts  
Jared Curtis, Field Representative, Bureau of Accounts