



Town of Wayland Massachusetts

Audit Committee

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Final Report to the Wayland Select Board from the Wayland Audit Committee regarding the FY 21 Audit Cycle

Background

The Audit Committee is tasked as follows:

1. Review annual financial statement and management reports prepared by the auditors and provide comments with respect to said review
2. Review and report to the Select Board at least annually on the status of management recommendations made by the independent auditor and corrective action taken by management.

This Report addresses those tasks.

1. The Committee met on September 21, 2021 and recommended that the Town prepare an RFP for Independent Outside Auditor for the next three-year auditing cycle beginning with FY 22. The Town Administrator asked two of the members of the Audit Committee to review the subsequent responses to the RFP. Those reviews and a recommendation were submitted to the Town Administrator on January 20, 2022. There were only two responses to the RFP. That was fewer than expected. The Acting Town Manager subsequently selected Melanson for the audit engagement.
2. The Committee next met on April 19, 2022, to discuss the draft ACFR for FY '21 and a draft of the Management Letter (ML) relating to the FY '21 audit with the Town's independent

Auditor. Alina Korsak was the presenter for Melanson and Brian Keveny, Wayland Finance Director, also attended.

The Committee provided written comments and suggestions re the ACFR.

The ML addressed three issues that had been raised in the previous year, as well as their current year status: Timely Cash Reconciliations, Ensure Compliance with Uniform Guidance, and Improving Controls Over Payroll. The auditor did not raise any new issues specific to FY '21 other than these.

Material Weakness in Cash Reconciliation

The auditors concluded that monthly cash reconciliations were not done in FY '21, nor had it been done timely through March of 2022, and flagged the issue as a material weakness.

Our committee agrees.

The Audit Committee wishes to add its perspective to this conclusion. We wish to emphasize that this has been a problem with the Wayland Treasurer's Department since 2013. Melanson has raised this as an issue in every audit cycle since 2013. It was specifically cited in the Management Letters of 2015, 2018, 2019, 2020. (In other years, it was not elevated into the ML because the issue was thought to be under control). In 2019 and 2020 the issue was identified as a significant deficiency. In 2021, it was escalated into a material weakness. (To further put this in perspective, when the Audit Committee met with the Town Administrator (TA) on Feb 26, 2020, the TA promised to prepare written process guides so the Town would be in better position to ensure timely Cash Reconciliations in the future).

Melanson states that the "Town must reconcile cash on a timely basis to ensure reliable interim reporting, a timely closing process, and overall control over cash balances". While this is true, it doesn't do much to create a sense of urgency. This particular material weakness could result in the failure to timely detect unintentional errors and fraudulent misappropriations of funds, i.e., embezzlement, as well as material misrepresentations in the financial reports which, in turn, could negatively impact the Town's bond rating. Further, a delay in the completion of the annual financial audit could also result in a delay in the scheduling of bond issuances. (In this connection, the Town has typically raised capital in February. Would that have been possible this year?)

Other current year impacts of delayed cash reconciliation:

- The Town had to hire an outside consultant (CLA) at a cost of \$80,000 (no cash was allocated for this purpose). Note also, there is a Treasury Expense line item for \$25,000 attached to "Current Year Transfers" in the Warrant for the May 14, 2022, Town Meeting.
- The audit closed five months later than last year's audit. (Audits were closed late in previous years as well due to this issue but to a lesser extent.) The books were closed on June 30, 2021, and we are just now getting the ACFR and the ML in April 2022.
- Because CLA performed the emergency cash reconciliation, they were removed as a candidate for the Independent Outside Auditor position for the next audit cycle, even though they had responded to the Town's RFP for auditor, as this would represent a conflict of interest.
- The Free Cash Certification was just approved in late March as we did not have the audited financials completed sooner. In other years, we may not have had this in time for

the Town Meeting. As we moved the Town Meeting until May 14 this year due to COVID, we will be able to vote on the budget. We typically get the Free Cash Certification in August, and the Town Meeting is typically in early April. This cuts it very close. Seems that we got lucky.

To summarize, cash reconciliation has been a problem for the last three generations of Town Administrators as well as Town Treasurers. If this were the private sector, the CFO would have been fired long ago.

The questions we need to ask include whether the Treasurer function was merely improperly supervised by the Town Administrator or clearly needs to be reorganized. In this connection, the Collins Center Report recommended that the Treasurer position report to the Finance Director. Was there a good reason that didn't happen? Should that decision be revisited? Alternatively, should the responsibility for cash reconciliations be moved to the Finance Director? Should a part time financial accountant be hired in the Treasurer's or Finance Director's department with the primary responsibility to complete timely cash reconciliations? This would seem prudent, particularly given the prior year expenditure of over \$100,000 to an outside firm to complete cash reconciliations.

Other Matters

There have been other problems in Treasury. In Fiscal Year 2020 the Town appropriated \$551,054 to the OPEB fund. The transaction was recorded in the General Ledger in October 2019, but the bank account transfer was not made until August 2020. (Note: S&P Index returns for 2019 and 2020 were 31.5% and 18.4%, respectively). When George Uveges was on the Finance Committee he often speculated as to whether the Town's funds were optimally invested and not needlessly wasting away in money market funds. Neither the Audit Committee nor the Finance Committee has the authority to order up such a Treasury audit, and most Treasurers would bristle at such a suggestion. Perhaps this interregnum would be a good time to look at the suitability of the investments made by the Treasurer.

Audit Committee Recommendation

The Audit Committee recommends that the Select Board reexamine the reporting relationship for the Treasurer and/or the responsibility for completing cash reconciliations. In addition, the AC would support an audit to ensure Town funds are invested properly, efficiently and in compliance with highly prescriptive State mandated rules.

Town Response

Under the Special Act, the Town Manager (TM) is now the CFO. The TM is working to address this issue with the Finance Director and will continue to do so. The TM agrees that having this as a material weakness is unacceptable. The TM states that: "With the passage of the new Town Manager Act, there is an opportunity to restructure the finance departments in the town". Additionally, the Town Manager will review and report on the cash reconciliation process on an ongoing basis. There are layers including departmental structure, software compatibility issues that also need to be addressed as part of this process.

Ensure Compliance with Uniform Guidance

In their FY 2020 ML the auditors had recommended that Town “implement enhanced policies and procedures and that all departments be made aware of Uniform Guidance (over federal grants) requirements”. That recommendation has not been implemented.

Audit Committee Recommendation

The Audit Committee has previously taken the position that Uniform Guidance (UG) requirements are not broadly applicable to the Town because Commonwealth of MA grant funding is below the triggering threshold for UG guidelines. If Federal grants are of a triggering size in the future, the Town will need to ensure it is compliant with UG requirements. It should be noted that the School Department has received federal grants exceeding the triggering thresholds and has implemented the UG requirements.

Town Response

Town Management and the Select Board will strive to develop written policies and procedures for Town departments.

Improving Controls Over Payroll

The independent auditor’s request for copies of random payroll records was not completed timely by the School Department (SD). The payroll audit generically works as follows: The SD has 400+ employees. The auditor might request payroll records for a sample of the population, perhaps 3%, or 12 records in total. If there are problems with X% of the initial sample, that would trigger an expansion of the audit to verify that problems uncovered in the initial sample are not more widespread. Moreover, if issues were uncovered in prior year audits, then the auditor might ask for a larger sample size in subsequent years.

Audit Committee Recommendation

As noted in the ML, this was a problem in the prior years. The ML also states that because insufficient data was provided, the auditor was unable to “conclude on the accuracy of school payroll”.

The Audit Committee recommends the Town look into a payroll outsourcing solution. In this connection, perhaps five years ago, the Town was in serious negotiations with such an outside payroll provider. But inexplicably (i.e., without reasons given), Ms. Balmer, the then Town Administrator, terminated those negotiations.

Town Response

Recently due to staffing changes and restructuring staff responsibilities, the School Department’s response to the audit inquiry was not completed. The requested information will be prepared and submitted.

3. The Audit Committee received the final versions of the ACFR and ML, including the Town’s written response on April 29, 2022. These documents were added to the Audit Committee packet and posted to the Audit Committee web page and distributed to AC members by

email. The Committee met on May 3, 2022, to review final versions of the ACFR, the ML, and the Town Management response.

- Audit Committee believes that the AC's written feedback on the draft ACFR was materially accommodated in the final version of the ACFR.
- The AC believes it is worth mentioning that the discount rate used to measure pension liabilities for the Town Employees' Pension Plan is 7.30%. The Town's OPEB actuary states that: "PERAC is trying to get everybody to 7% or less. CALPERS has recently told their people to get to 6.75%". If the discount rate were to be reduced, pension liabilities would go up. Based on disclosures in the ACFR, a 1% reduction in the discount rate would cause pension liabilities for Town employees to go from \$56 Million to \$70 Million. (Note: The cost to amortize each \$1 million over 30 years at 7% is \$75.3 thousand per year).
- The ML is careful to point out that: "we do not express an opinion on the effectiveness of the Town's internal control". The AC wishes to point out that at some point the Town might want to expand the scope of the audit to include an audit of internal controls. And an audit of the internal controls surrounding the cash reconciliation function would be a starting point.
- The Committee focused on the deltas between the draft ML and the Final Management Letter. And follow up questions were satisfactorily addressed.
- Management responses to the ML are incorporated in this "Final Report".

In summary, the FY 21 audit cycle surfaced several important and concerning issues that generated much discussion and recommendations from the Audit Committee. Accordingly, the Audit Committee voted 4-0 in favor of accepting the final versions of the FY 21 CAFR and FY 21 ML as presented, and the submission of this Final Report.

Respectfully submitted, Wayland Audit Committee – Approval voted (4-0)