

TOWN OF BLACKSTONE, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2014

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Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

To the Board of Selectmen
Town of Blackstone, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Blackstone, Massachusetts as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Blackstone, Massachusetts' internal control over financial reporting (internal control) 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 over financial reporting.

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 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.

During our audit, we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The Town's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Melanson Heath

April 8, 2015

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Establish Internal Audit Function

Prior Year Issue:

In the prior year, we recommended that the Town establish a formal Internal Audit function to perform audits throughout the year. The Town historically has relied solely on the independent auditor to audit departmental activity. This reliance, however, increases the risk that errors or irregularities could occur and not be tested or detected by management.

Current Year Status:

We understand that an outside contractor was hired in FY 15 to perform this function.

Town's Response:

The Town utilized the Financial Consultant hired by the Finance Committee to perform this function in FY15. The Town Accountant will be performing the internal audit function going forward.

2. Improve Compensated Absences Accounting

Prior Year Issue:

In the prior year, we recommended that all identified errors in the automated compensated absence system be researched to determine the cause so that the same errors do not occur and go undetected in the future.

Current Year Status:

In fiscal year 2014, the Town's compensated absences report contained numerous negative balances. In addition, the support provided for the Police Department was as of 7/1/14 and included FY 15 accruals. As a result, the reports provided were inaccurate.

Further Action Needed:

We recommend that compensated absence reports be reviewed on a consistent basis and any unusual items such as negative balances be investigated and resolved.

Town's Response:

All negative balances have been investigated and corrected. In addition, the Treasurer/Collector is implementing a new policy to ensure department heads are aware of each employee's time so as to avoid any negative balances in the future. The Treasurer/Collector is continuing to record compensated absences reports in the payroll system to ensure accuracy of all accruals and deductions.

3. Lien Remaining Tax Receivables

Prior Year Issue:

In the prior year, we recommended that real estate tax receivables dating back to 2002 be liened in order to increase interest rates of liened properties, and to minimize the risk of losing a secured interest in the property in the event the property is sold or the taxpayer files for bankruptcy.

Current Year Status:

The Town has collected or liened most of the back real estate taxes receivable. At the end of fiscal year 2014, there are still some small real estate receivables dating back to 2002 on the Town's books.

Further Action Needed:

We recommend that the Town continue to pursue the collection of old outstanding receivables.

Town's Response:

The Treasurer/Collector will continue to pursue the collection of all old receivables.

4. Improve Controls in Financial Office

Prior Year Issue:

In the prior year, we recommended that all prior period errors in the financial system be corrected. We further recommended that all journal entries be reviewed and approved by someone other than the preparer and that the revenue budget entered into MUNIS be reconciled to the Tax Rate Recapitulation.

Current Year Status:

Most errors found in prior years were fixed in the Town's system. However, the revenue budget posted in MUNIS did not agree to the Tax Rate Recapitulation, and state and county charges and an Annual Town Meeting vote were not included in the appropriation report. In addition, journal entries posted in MUNIS were not reviewed and approved by an individual other than the preparer. Further, there are a few withholding accounts with deficit balances as well as a few receivable reconciliations with timing differences that need to be investigated.

Further Action Needed:

We recommend that all journal entries be reviewed and approved by someone other than the preparer and that the revenue and expense budget entered into MUNIS be reconciled to the Tax Rate Recapitulation. We further recommend that withholding accounts be reviewed to ensure that amounts are clearing properly and that receivable reconciliation variances be investigated on a monthly basis.

Town's Response:

The revenue budget has been reconciled to the Tax Rate Recapitulation and the state and county charges and all Annual Town Meeting votes have been included on the appropriation report; as such, this issue should be deemed resolved. The Town Accountant has always reviewed all journal entries posted by the Assistant Town Accountant, and has updated the cover page for journal entries so any individual reviewing work can initial the post at the top. Monthly procedures are set in place to ensure the withholding accounts and receivable variances are being corrected.

5. Improve Cash Transactions

Prior Year Issue:

In the prior year, we recommended that the Treasurer's Office verify the amounts of transfers between accounts. We also recommended that checks be dated the day they are issued, that the old vendor and payroll accounts be closed, and the old outstanding checks be voided and moved to tailings.

Current Year Status:

In fiscal year 2014, we noted that one of the transfers from the capital trust bank account was not completed. In addition, the old vendor and payroll accounts remain open, which include approximately \$12,000 of outstanding checks that are over a year old.

Further Action Needed:

We recommend the Treasurer's Office verify that all cash transfers between accounts be completed to correspond to budget votes. We further continue to recommend that the old vendor and payroll accounts be closed and that the old outstanding checks be voided and moved to tailings. This will improve the efficiency and accuracy of bank reconciliations, and will reduce the risk of errors or irregularities occurring and going undetected.

Town's Response:

The Treasurer/Collector moved all outstanding checks into tailings at the beginning of FY15, and will be running reports annually to ensure all stale checks move into tailings. The old vendor and payroll accounts are being closed as these tailings are being paid.

6. Reconcile Agency and Overlay Accounts

Prior Year Issue:

In the prior year, we recommended that the Town research the performance bonds held in custody of the Treasurer to determine the source of the obligations. In addition, we recommended that in the future the Town maintain a detailed list, which identifies the source of every obligation. We further recom-

mended that overlay records in the Assessor's Office be reconciled to the general ledger on a periodic basis.

Current Year Status:

In fiscal year 2014, overlay records in the Assessor's office were reconciled to the general ledger. However, the Town was still unable to provide detailed information for the performance bond agency account.

Further Action Needed:

We continue to recommend that the Town research the performance bonds held in custody of the Treasurer to determine the source of the obligations. In addition, we recommend that in the future the Town maintain a detailed list, which identifies the source of every obligation.

Town's Response:

All performance bonds being issued are now being tracked with a detailed list and are separated on the General Ledger. The Treasurer/Collector and Town Accountant are working together to separate the old performance bond funds and determine the source of obligations.

CURRENT YEAR RECOMMENDATION:

7. Improve Internal Controls

During departmental receipt testing, it was noted that there are no written policies and procedures for departmental receipts. In addition, we noted that the Town Accountant is not providing monthly revenue reports to the departments, and there is a lack of segregation of duties in the Town Clerk's office as the same individuals who collect receipts are also responsible for reconciling to the receipt log, and preparing turnovers. Also there is no documentation of who prepared and/or reviewed the records.

We recommend that the Town complete and provide written policies and procedures to each department that is responsible for collecting receipts. In addition, we recommend that the Town Accountant provide monthly revenue reports to the departments, to be reconciled to departmental records. We further recommend that an improved segregation of duties be implemented in the Town Clerk's office so that one individual is not responsible to collect cash, reconcile, and prepare the turnover. Finally, preparer and reviewer oversight should be documented.

Town's Response:

The Town does have Financial Policies and Procedures in place. The Town Accountant is working on updating the policies and redistributing to all department heads at the end of the year. Updated policies regarding turnovers have been submitted to all departments as well as a new form to

ensure compliance with the procedures. The Town Accountant's office has begun providing all departments with their monthly revenue reports and will continue to do so.

8. Improve Controls Over Payroll Documentation

During payroll testing, the following issues were noted:

- Supporting documentation for a recording secretary stipend could not be located
- Hazardous duty pay for police officers was not included in the overtime rate in error

We recommend that the Town retain all supporting documentation and ensure that police overtime rates include all the necessary components.

Town's Response:

The Town Accountant and Treasurer/Collector have been diligent in gathering all supporting documentation for current and future employees. The recording secretary stipend was a lost document from many years ago and the current offices are not able to speak for the reasons that prior officials did not properly document that change. The error in hazardous duty pay for police officers was an oversight in the FLSA regulations for amounts to be included in overtime, as this was a new stipend included in the union contract for FY14. This amount has been included in overtime rates for FY15 and the amount owed to police officers is being retroactively paid in a Special Town Meeting in FY15.