TOWN OF BLACKSTONE, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2011

TABLE OF CONTENTS

	PAGE
INTRODUCTORY LETTER	1
STATUS OF PRIOR YEAR RECOMMENDATIONS:	
1. Reconcile Cash Balances (Material Weakness)	3
2. Establish Internal Controls over the Preparation of Audited Financial Statements (Significant Deficiency)	4
3. Establish Internal Audit Function (Significant Deficiency)	4
4. Improve Compensated Absences Accounting	5
5. Improve Supporting Documentation for Disbursements	6
6. Lien Tax Receivables More Timely	6
CURRENT YEAR RECOMMENDATIONS:	
7. Investigate Special Revenue and Capital Project Fund Balances	8
8. Maintain Board of Selectmen's Minutes	8

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To the Board of Selectmen
Town of Blackstone, Massachusetts

In planning and performing our audit of the financial statements of the Town of Blackstone, Massachusetts as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Blackstone's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. Material weaknesses are noted in the table of contents and comment headings.

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. Significant deficiencies are noted in the table of contents and comment headings.

During our audit we also became aware of several 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 response to our comments and suggestions has 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, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson, Heath + Company P.C.
Andover, Massachusetts
May 14, 2012

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Reconcile Cash Balances (Material Weakness)

Prior Year Issue:
In the prior year, we recommended that the Town reconcile all cash balances. Reconciliation of major general ledger accounts is integral to a strong internal control system. Specifically, the reconciliation of cash accounts ensures the proper recording of receipts and disbursements. Lack of this reconciliation increases the risk that errors or irregularities may occur and go undetected.

Current Year Status:
In fiscal year 2011, the Town Accountant's office attempted to reconcile general ledger cash to the Treasurer's records. However, errors were found, and the cashbook balance kept changing which made the reconciliation difficult to complete. Also, the vendor and payroll accounts within the cash-book had a zero balance; however, the reconciliations provided by the bank had a list of reconciling items going back to July 2010, which were not addressed by the Town. In addition, the Capital Trust bank account did not agree to the general ledger, as there were errors made when transferring cash between accounts. Further, reconciliations were not being completed on a monthly basis, which made it more difficult to reconcile at year-end.

Further Action Needed:
We continue to recommend that: (1) all bank statements be reconciled to the Treasurer's cashbook monthly and that any adjustments noted be made, (2) the Treasurer's cashbook and general ledger be adjusted to reflect the correct cash balance, and (3) the Treasurer's cashbook balance be reconciled monthly to the general ledger. This will improve the reliability of and provide control over the general ledger cash balance.

We are not convinced that staff in the Treasurer's office has the ability to perform the reconciliations and provide sufficient information to the Accounting Office so that reconciliations can be made to the General Ledger on a timely basis. We recommend that outside assistance be brought in over the short-term and that changes in the Treasurer's office be made to resolve the problem in the long-term.

Town's Response:
The Town has obtained outside assistance for the purpose of cash reconciliations. Cash has been reconciled with a consistent variance through FY 2012, and the consultant trained an individual to reconcile without assistance from the consultant.

2. Establish Internal Controls over the Preparation of Audited Financial Statements (Significant Deficiency)

Prior Year Issue:
In the prior year, we recommended that the Town establish internal controls over the preparation of audited financial statements by either providing additional staff training in the area of understanding financial statements prepared under the GASB 34 reporting model, or by retaining a service provider to assist in the review of the statements to ensure that material misstatements are not present.

Current Year Status:
This issue has not been addressed.

Further Action Needed:
We continue to recommend that the Town either provide additional staff training in the area of understanding financial statements prepared under the GASB 34 reporting model, or retain a service provider to assist in the review of the statements to ensure material misstatements are not present.

Town's Response:
The current Town Accountant started in June of FY 2011. She has an understanding of GASB 34 and will get additional training through Mr. Sullivan of Melanson Heath during FY 2012 to ensure proper knowledge is maintained.

3. Establish Internal Audit Function (Significant Deficiency)

Prior Year Issue:
In the prior year, we recommended that the Town establish a formal Internal Audit function that performs audits throughout the year. The Town historically has relied on the independent auditor to perform these functions. This reli-

ance, however, increases the risk that errors or irregularities could occur and not be tested or detected by management.

Current Year Status:
This issue has not been addressed.

Further Action Needed:
We continue to recommend that the Town establish an Internal Audit function to properly monitor operations and assess risk of misstatement to the financial statements caused by either error or irregularities.

Town's Response:
The Accounting Department will be establishing an Internal Audit function during FY 2012.

4. Improve Compensated Absences Accounting

Prior Year Issue:
In the prior year, we recommended that any errors in the automated compensated absence system be researched to determine the cause so that the same error does not occur and go undetected in the future.

Current Year Status:
In fiscal year 2011, the Fire Department rate information was still not included. In addition, we noted that almost all the Police and Fire Department personnel required adjustments in the system at the end of the year.

Further Action Needed:
We continue to recommend that any errors in the automated system be researched to determine the cause so that the same error does not occur and go undetected in the future.

Town's Response:
A review of the compensated absences will take place, and a policy will be implemented to better track all compensated absences.

5. Improve Supporting Documentation for Disbursements

Prior Year Issue:
In the prior year, we recommended that the Town improve supporting documentation for disbursements, including maintaining contracts and documentation for proper approvals.

Current Year Status:
In fiscal year 2011, we noted the following issues as a result of our payroll and vendor disbursement testing:

- Two out of twenty-five invoices selected for testing were approved by the individual requesting the reimbursement.
- One out of five employees tested was missing an employment contract.
- A second employee out of the five tested was being paid a $ 200 per week stipend for part of the year. However, there was no support for approval of this stipend.
- A third employee out of the five tested was overpaid for most of fiscal year 2011; however, this was caught prior to the end of the year, and the overpayment has been repaid.

Further Action Needed:
We continue to recommend that the Town improve supporting documentation for disbursements, including maintaining contracts and documentation. The implementation of these recommendations will improve controls over disbursements.

Town's Response:
Efforts are being made to ensure proper contracts are in place, proper documentation is presented for payment, and invoices for self reimbursements are approved by the Town Administrator.

6. Lien Tax Receivables More Timely

Prior Year Issue:
In the prior year, we recommended that real estate tax receivables dating back to 2002 be liened. The Town loses revenue from the increased interest rates of liened properties, and the Town also risks losing a secured interest in

the property in the event the property is sold or the taxpayer files for bankruptcy.

Current Year Status:
This issue has not been addressed.

Further Action Needed:
We continue to recommend that the Town lien tax receivables in a timelier manner, as permitted by statute. Implementation of this recommendation should result in improved control over delinquent receivables and additional revenues from interest and penalties.

Town's Response:
Tax Liens were started in May of FY 2011 and completed by September of FY 2012.

CURRENT YEAR RECOMMENDATIONS:

7. Investigate Special Revenue and Capital Project Fund Balances

During fiscal year 2011, we noted various Special Revenue and Capital Project funds that have been sitting on the books for years with no activity in them. We recommend that procedures be established to periodically review Special Revenue Fund and Capital Project Fund balances, and take appropriate action to either fund deficits or use excess balances in accordance with the intended purpose.

Town's Response:
Currently, the Town Accountant has been reviewing and taking action on stagnant accounts. During the review process, accounts that have been gifted for specific use are going to be made available, capital accounts that have been completed are going to be voted for other uses according to Massachusetts General Laws Ch. 44 Section 17, and funds in which were voted for a specific use and no longer needed will be voted back to the original fund (general fund).

8. Maintain Board of Selectmen's Executive Session Minutes

During our review of Board of Selectmen's meeting minutes, we noted various agendas that did not have corresponding minutes dating back to January 2011. It was determined that these agendas corresponded to Executive sessions whose minutes had never been typed up or approved. According to Chapter 28 of the Acts of 2009, minutes of all meetings including executive sessions should be maintained and approved in a timely manner.

We recommend that the Town record and maintain a record of all Board of Selectmen meetings. We further recommend that each Board meeting begin with the acceptance and signing of previous meeting minutes. This will ensure compliance with the Commonwealth's open meeting law as well as provide an accurate, approved and chronological transcript of Board meetings.

Town's Response:

The minutes are now being kept in the Board of Selectmen's meeting room along with a separate book of minutes for pending executive session that are not public record until voted on by the Board of Selectmen.