MH&Co

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May 24, 2012

Daniel M. Keyes
Town Administrator
Town of Blackstone
15 St. Paul Street
Blackstone, MA 01504

Dear Administrator Keyes,

We have been engaged to provide technical support and training to an individual selected by your office to perform reconciliations of the Treasurer's cash book to the bank statements and to reconcile the bank accounts to the Town's general ledger.

The reconciliations have been performed for each month from July, 2011 through April, 2012. During the early months we spent substantial time establishing procedures and upgrading a copy of the Treasurer's cash book to include the vendor and payroll accounts. The reconciliations for the months of February, March and April of 2012 have been completed by the designated Town employee, Cathy Muller, without assistance from our office. We have reviewed those reconciliations for completeness and accuracy.

The reconciliations have identified various transactions in the Treasurer's office that had not been entered into the Town's financial management system. Most of those entries have subsequently been made and resolved. Such entries include:

<u>August, 2011</u>

$129.00 correction needed for warrant # 12EWA09 still being carried as a reconciling item

<u>September, 2011</u>

$300,000 loan for fire truck not entered in general ledger. Correcting entry made in March, 2012

<u>October, 2011</u>

$25 return check fee entered twice. Corrected in December, 2011

<u>December, 2011</u>

$65,992.40 warrant 12PW26 not disbursed in the general ledger. Corrected in April, 2012
$12,300.38 warrant 12EWA26 not disbursed in general ledger. Corrected in April, 2012

$12,381.00 warrant 12EWA27 not disbursed in general ledger. Corrected in April, 2012

April, 2012

Identified $4,000 of automatic withdrawals from Collectors account for the postage meter made in previous fiscal year never disbursed in the general ledger. Correction made in April, 2012

There are numerous other adjustments for minor amounts that have not been listed above as well as void and returned checks that have not been reported on a timely basis.

In addition to the above corrections identified in the reconciling process, there were numerous instances identified where transfers between bank accounts were not made or not made correctly. Transfers are made from various specific accounts to the payroll and vendor accounts to cover warrants issued. Transfers are also made to distribute receipts deposited into the master depository account or to allocate interest. We found that the transfers did not always equal the amount of the warrants issued. The Treasurer did not always distribute the correct receipt amounts or in many cases not make a distribution at all.

There are several bank accounts used to separately account for certain transactions such as park and recreation, ambulance, library grants, trusts and construction, capital trust, road bond accounts, CDBG program income account and well #8 capital project. The failure to transfer as required results in balance differences between the Treasurer's office and Town Accountant causing other Town employees to be confused as to what the proper balance is. We believe based on our reconciliations that the accounting balances are the correct ones.

The cash book submitted to Cathy Muller by the Treasurer's office still does not include activity for the vendor and payroll accounts. The vendor and payroll accounts were closed and re-opened in December of 2011 but are still not included in the Treasurer's cash book. We believe that the Treasurer should upgrade the cash book to include those accounts.

Finally, we found that most often a correction is entered into the financial management system based on the original transaction date. When that happens, the general ledger balances change from the original month end dates that have now already been reconciled.

Recommendations

We believe the Town should continue performing reconciliations independent of the Treasurer's office. The Town Administrator and Board of Selectmen can control the timeliness of the reconciliations and have assurance that omitted or incorrect transactions are caught and corrected on a timely basis. The current structure also creates a better set of checks and balances between the various offices within Town hall.

A substantial amount of time and effort has been spent by Town officials and our office to get the reconciliations completed and caught up to date. At times the process was contentious and subject to a lack of cooperation. Reversion of the process back to the Treasurer's office puts the Town at risk for regression to previous conditions. The Treasurer should upgrade the cash book to include the vendor and payroll accounts prior to sending it over to be reconciled.

Further steps need to be taken to either force transfers between designated bank accounts to happen on a timely basis or for the Selectmen to direct the Treasurer to close those specific accounts and rely solely on the accounting records to maintain the balances.

Entries to post transactions should be dated based on the date entered into the financial management system to maintain the integrity of the timing of the transactions.

We appreciate the opportunity to work with the various individuals in the Town offices who participated in this process. Having a trained individual who is able to reconcile the accounts on a monthly basis is a major step forward for the Town's internal control structure. We are pleased to have been a part of that process.

Sincerely,

John J. Sullivan
Melanson, Heath & Company, P.C.
Certified Public Accountants