# TOWN OF BLACKSTONE, MASSACHUSETTS

## Management Letter

## For the Year Ended June 30, 2013

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MELANSONHEATH
ACCOUNTANTS • AUDITORS

10 New England Business
Center Dr. • Suite 107
Andover, MA 01810
(978)749-0005
melansonheath.com

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, 2013, 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 over financial reporting.

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, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 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

May 28, 2014

## STATUS OF PRIOR YEAR RECOMMENDATIONS:

### 1. 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:
Staff training was previously requested by Mr. Sullivan of the Accounting Firm, and it never came to fruition. It is again requested that the Firm assist the Accountant to ensure the Accountant has the proper understanding.

### 2. Establish Internal Audit Function (Significant Deficiency)

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:
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:
Presently, we do not have the funding or manpower to complete an Internal Audit. We will be strongly suggesting that the Board of Selectmen hire an outside auditor to perform quarterly audits.

## 3. 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 2013, the compensated absences reports were not printed when the payroll was run at the end of the year, and the reports could not be generated after the fact. As a result, we were unable to determine if prior years' errors have been corrected.

Further Action Needed:
We recommend that compensated absence reports be run with each payroll. We also recommend that all identified errors in the automated system be researched to determine the cause so that the same errors do not reoccur.

Town's Response:
The new Treasurer has been apprised of the situation and is currently implementing a policy to properly record compensated absences in the payroll system and to run biweekly reports to be included with the payroll warrants.

## 4. Lien Remaining Tax Receivables

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:
The Town has collected or liened most of the back real estate taxes receivable. At the end of fiscal year 2013, there are still some small real estate receivables dating back to 2002 on the Town's books. However, we understand that the majority of these have been either collected or liened in fiscal year 2014.

Further Action Needed:
We recommend that the Town continue to pursue the collection of old outstanding receivables.

Town's Response:
This was a ten-year issue that the new Treasurer/Collector has corrected and will continue to maintain in the coming fiscal years.

## 5. Improve Continuity in Financial Office (Significant Deficiency)

Prior Year Issue:
In the prior year, we recommended that the Town look into ways to retain a Town Accountant, establish procedures to ensure that key staff are adequately trained in financial accounting and reporting and the tax recap preparation process, and that the Town review and verify all budget and financial reporting entries prior to posting in the accounting system as there were numerous errors found.

Current Year Status:
The current Town Accountant has been in the position for approximately a year, and we did not find the extent of errors that were present in fiscal year 2012. However, certain errors found during the fiscal year 2012 audit were not fixed in the Town's system. In addition, the revenue budget posted in MUNIS did not agree to the Tax Rate Recapitulation, and journal entries

posted on MUNIS were not reviewed and approved by an individual other than the preparer.

Further Action Needed:
We recommend that all prior period errors in the financial system be corrected. We further recommend 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.

Town's Response:
We agree that there is a need to compensate the Town Accountant with a higher salary in order to retain a qualified individual in that position and reduce the high turnover, and will keep informing the Board of Selectmen of this necessity. We also recommend to the Board of Selectmen that they hire an outside auditor to perform quarterly audits, which would allow a separate review of the journal entries by employees in the Accountant's office. The revenue budget has been reconciled to the Tax Rate Recapitulation and, as such, this issue should be deemed resolved.

## 6. Improve Cash Transactions

Prior Year Issue:
In the prior year, we recommended that the Treasurer's Office transfer cash balances between accounts on at least a monthly basis. This will result in more accurate cash balances. We also recommended that check numbers in MUNIS be reviewed to ensure that they match the actual checks and that the old vendor and payroll accounts be closed and that the old outstanding checks be moved to tailings.

Current Year Status:
In fiscal year 2013, we noted that some of the transfers into trust bank accounts were not for the appropriate amount. In addition, checks cut and issued in July were back dated to June 30th in error.

Finally, the Town opened new vendor and payroll accounts in fiscal year 2012; however, the old 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 the amounts of transfers between accounts. We also recommend that checks be dated the day they are issued. We further continue to recommend that the old vendor and payroll accounts be closed and that the old outstanding checks be 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 new Treasurer is presently implementing procedures to rectify this issue, including a plan to process stale checks through the practice of tailings, obtaining fund balances from the Accountant's Office to reconcile and reimburse the General Fund for its expenditures and to read the warrant appropriately to transfer funds between accounts.

## CURRENT YEAR RECOMMENDATION:

### 7. Reconcile Agency and Overlay Accounts

The Town was unable to provide detailed information for the performance bond agency account. In addition, overlay balances in the general ledger did not agree to support provided by the Assessors' Office. These should be reconciled to ensure that all abatements issued by the Assessor are recorded in the general ledger.

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

Town's Response:
The Accountant and new Treasurer are working together to separate the performance bond funds on the General Ledger and determine the source of obligations. They will also be developing a detailed list to identify all sources of obligations in the future. In addition, the Town Accountant will be implementing a periodic reconciliation with the Assessor to confirm that the overlay records in the Assessor's Office are accurate.