

**TOWN OF BLANDFORD, MASSACHUSETTS**

**Management Letter**

**For the Year Ended June 30, 2009**

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To the Board of Selectmen  
Town of Blandford, Massachusetts

In planning and performing our audit of the financial statements of the Town of Blandford, Massachusetts as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Blandford'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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Significant deficiencies in internal control are noted in the table of contents and comment headings.

*Additional Offices:*

*Andover, MA • Manchester, NH • Nashua, NH • Ellsworth, ME*

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Material weaknesses are noted in the table of contents and comment headings.

In addition, during our audit we became aware of other matters that are 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 them.

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.*

Greenfield, Massachusetts  
September 27, 2010

## **CURRENT YEAR ISSUES:**

### 1. **IMPROVE PROCEDURES FOR DOCUMENTING BID COMPLIANCE (COMPLIANCE FINDING/ MATERIAL WEAKNESS)**

Massachusetts General Laws Chapter 30B requires that purchases of \$ 5,000 to \$ 25,000 be supported by documentation that quotes were obtained by at least three vendors and that expenditures of \$ 25,000 or more be subject to a formal bidding process.

In testing for compliance with MGL Chapter 30B, we noted four instance of noncompliance:

- One instance where \$ 99,355 was paid for Beech Hill culvert work and, therefore, should have been subject to a formal bidding process.
- One instance where \$ 6,185 was paid for snow and ice labor and, therefore, three written quotes should have been obtained.
- One instance where \$ 2,430 was paid for water supplies; however the total expenditures for this vendor for the fiscal year was over \$ 5,000 and, therefore, three written quotes should have been obtained.
- One instance where \$ 4,793 was paid for water repair work; however the total expenditures for this vendor for the fiscal year was over \$ 25,000 and, therefore, should have been subject to a formal bidding process.

The Town could not supply us with documentation evidencing compliance with the requirements of Chapter 30B in any of these instances.

In addition, the Town does not currently require that departments provide evidence of vendor quotes or bids when submitting invoices for payment to the Town Accountant. This complicates the Town Accountant's disbursement review and approval process, and increases the risk that purchases may be made without following required procurement procedures.

We recommend that in the future the Town maintain documentation to support compliance with Chapter 30B in all applicable purchases of goods and services.

We also recommend departments attach documented evidence of vendor quotes/bids to invoices when submitting to the Town Accountant for disbursement processing. This will expedite the approval process and will provide additional assurance that procurement procedures were properly followed.

## 2. IMPROVE CONTROLS OVER DISBURSEMENTS (MATERIAL WEAKNESS)

During our detailed testing of internal controls over 25 vendor disbursements, we noted the following:

- Three instances where payments were made to individuals for which insufficient documentation was supplied to support the payment.
- One instance where an invoice was not approved for payment by the Department.
- One instance where a reimbursement to an employee was only approved by that same individual.
- One instance where a payment was made from a faxed copy.
- One instance where an invoice for a phone bill was charged to the “street lights” account.

Documentation, authorization and invoice review procedures are integral parts of a good system of internal controls and provide assurance that the Town’s expenditures are legitimate and accurate.

We recommend the Town establish formal procedures concerning invoice processing which include ensuring proper documentation and authorization of invoices is supplied prior to disbursement. We also recommend the Town closely review the accounts charged when invoices are processed to ensure that all charges are coded properly.

## 3. IMPROVE BUDGETING PROCESS (MATERIAL WEAKNESS)

During our review of the Town’s report of expenditures produced from its accounting software package, we noted that the budget column did not agree to the approved budget and subsequent amendments. In one instance the budget column was overstated by approximately \$ 30,000, which masked a deficit that should have been, but was not, raised on the subsequent year tax recap.

In addition, year end budget transfers were recorded as adjustments to actual expenditure accounts, rather than as adjustments to budgetary accounts. As a result, departmental budgets and actual expenditures were both misstated.

We recommend the Town implement or improve procedures to ensure the approved budget is accurately reflected in its financial accounting software system.

4. IMPLEMENT RECONCILIATION PROCEDURES FOR ACCOUNTS RECEIVABLE (MATERIAL WEAKNESS)

As in prior years, our inquiries found that accounts receivable are not reconciled on a regular (monthly/quarterly) basis. Reconciliation of key general ledger account balances to supporting documentation is integral to ensuring the accuracy of the Town's accounting records.

As a result of the lack of reconciliation procedures, we noted the following issues:

- Real estate taxes receivable could not be reconciled to the Collector's detail. The variance was material and resulted in an audit opinion disclaimer.
- Water use charges receivable could not be reconciled to the Water Department's detail. The variance was material and resulted in an audit opinion disclaimer.
- Water liens and motor vehicle excise receivables reported in the general ledger were at variance with the Collector's detail, although the variances were not considered to be material.

Lack of an adequate reconciliation process minimizes the benefit gained by segregating duties and greatly increases the risk that errors or irregularities could occur and go undetected. It may also delay the Town's ability to certify the year-end "free cash" balance since Department of Revenue directives require a receivable reconciliation at year end as part of the certification process.

In addition we noted that the Treasurer has approximately \$ 16,000 shown as deposits in transit on her bank account reconciliation. This amount represents direct deposits made by the Town's receivable vendor (Point Software) for payment of taxes; however, these amounts have not been recorded in the general ledger since the Treasurer has not been informed which tax type and levy year these receipts relate to.

We recommend the Town establish formal procedures to reconcile all accounts receivable balances on a monthly basis. This will provide additional assurance that accurate information is provided to Town management, will reduce the likelihood that errors or irregularities could occur and go undetected and will enable free cash certifications to be completed in a timely manner. This will also reduce the effort required to close the books at year end.

5. IMPROVE RECORD KEEPING – ASSESSORS’ OFFICE (COMPLIANCE FINDING)

As in prior years, we found the Assessor’s office was unable to locate all personal property and real estate tax abatements issued during the fiscal year.

As custodian of Town records, the Assessors must safely store and retain original documents. A municipal record disposition schedule for Assessors (available from the Archives Division – Records Management Section of the Office of the Secretary of State) details retention requirements for each type of document originating in the Assessor’s office.

We recommend the Assessors’ Office, as originators of abatement documentation, establish procedures to ensure that all original documentation is retained, properly approved and locatable.

6. ESTABLISH FUND BALANCE GOALS

Fiscal year 2009 represents the fourth consecutive year that the Town’s fund balance has declined. As a result, the general fund undesignated fund balance has been reduced to approximately \$ 162,000 at June 30, 2009, compared to approximately \$ 867,000 at June 30, 2005. In addition, the Town’s free cash for fiscal year 2009 was certified as a deficit of \$ (70,232).

We recommend the Town establish fiscal policy goals to improve its current financial position. The policy should include issues such as establishing thresholds for general fund undesignated fund balance, limiting the use of free cash balances to “one-time-only” projects and conservatively estimating local receipts during the budget process.

Additionally we recommend the Town make a concerted effort to collect unpaid property and excise taxes which have increased significantly over the past several years. Towards this effort we recommend the Town commit sufficient resources to allow properties to be placed in tax title in a timely manner (see the following comment) and pursue foreclosure of delinquent properties via land court.

We further recommend the Town consider releasing all or a portion of its excess overlay (overlay surplus). At June 30, 2009 the Town’s excess overlay balance was approximately \$ 87,000. This excess is partly responsible for the Town’s negative free cash position at June 30, 2009.

7. ESTABLISH MORE AGGRESSIVE TAX COLLECTION POLICY

The Town does not follow an aggressive policy for collecting delinquent taxes. Massachusetts General Laws provide specific timetables for the liening and foreclosing of properties for non-payment. The Town has not been performing these procedures as aggressively as permitted by statute and has delinquent taxes dating back to fiscal year 1989. The existence of old receivables results in the loss of revenue from the increased interest rates of lienied properties. Also, the Town risks losing a secured interest in the property in the event the property is sold or the taxpayer files for bankruptcy.

We recommend the Town establish a policy to be more aggressive in pursuing delinquent accounts. This will result in an improved financial condition of the Town.

8. IMPROVE ACCOUNTING FOR WATER LIENS (SIGNIFICANT DEFICIENCY)

During fiscal year 2009 the Town lienied water use charges receivable but did not include interest to the date of taking. Since these outstanding balances have already been added to real estate tax bills there is no way to collect the interest that should have been assessed.

We recommend the Town properly account for water liens before they are removed from user charges and added to resident's real estate tax bills. This will ensure the Town bills for all rightful charges.

9. IMPROVE CONTROLS OVER SEPTIC LOANS

In August 2008 the Town issued a septic loan to a resident for approximately \$ 20,000. Per review of the loan agreement, repayment of the loan was scheduled to begin in November 2008; however, no payments were made during fiscal year 2009. Furthermore, the loan balance was not recorded as a receivable in the Town's general ledger.

In addition, during our review of the loan documents we noted that the Town did not secure their interest with a lien on the property. If the property were sold prior to the payment of the loan in full, the Town would have limited means of collecting the balance.

We recommend the Town pursue collection of the balance due and establish and maintain a loans receivable account in the general ledger, which should be reconciled periodically with the records maintained by the Treasurer.

We also recommend the Town place a lien on the property. This will help protect the Town's interest in the loan and may improve the likelihood of collection.

10. IMPROVE CONTROLS OVER EMPLOYEE PAY RATES

In our testing of five payroll transactions, we noted two instances where the pay rate for the employee could not be appropriately supported. This increases the risk of inappropriate salaries and wages being paid.

We recommend the Town issue appointment letters upon hiring an employee and that these letters are given to the Treasurer to be retained in the employee's file.

11. RECONCILE TRUST FUND BALANCES

During our testing, we noted that the Treasurer's trust fund balances did not agree with the general ledger. At June 30, 2009, the Treasurer's trust fund balance was at variance with the Town's general ledger by approximately \$ 4,700.

In addition, the Treasurer's office tracks investments at cost, however, most monthly investment portfolio reports track investments at market value.

We recommend the Treasurer reconcile trust fund balances with the general ledger on at least a quarterly basis. This will help to ensure that activity is posted in the period in which it occurs, and that balances in individual trust funds are accurate, up to date and available as needed.

We also recommend the Treasurer's office begin tracking and reporting investments at fair market value. This will simplify the reconciliation process, and will conform to generally accepted accounting principle requirements.

12. PREPARE FOR CHANGES IN THE OPEN MEETING LAW

Chapter 28 of the Acts of 2009, generally known as the Ethic's Reform Act, include significant changes to the State's open meeting and public records law. Some parts of Chapter 28 became effective July 1, 2009 while the key changes, which affect how local boards operate, took effect on July 1, 2010. We encourage the Town to advise all local boards and employees to become versed in the changes enacted by this legislation, particularly in the regard to the recording of meeting minutes. Implementation of this recommendation

will reduce the risk of Town boards and/or employees violating the State's open meeting and public records law.

13. PREPARE FOR IMPLEMENTATION OF GASB STATEMENT 45

In June 2004, the Governmental Accounting Standards Board issued GASB Statement 45 which addresses other post-employment benefits (OPEB), including medical, dental, vision and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries. The standard, which will be applicable to the Town in fiscal year 2010, requires employers to obtain an actuarial valuation and to disclose certain information relating to the funding progress of the plan, including:

- actuarial valuation date,
- accrued liability and total unfunded liability,
- annual covered payroll, and
- ratio of the unfunded actuarial to annual covered payroll.

We recommend the Town begin the process of implementing this requirement, specifically by budgeting and contracting for an actuarial valuation. This will assure the Town is prepared to meet the upcoming reporting requirements of GASB Statement 45.

14. ESTABLISH PROCEDURES TO COMPLY WITH FTC "RED FLAG" SECURITY REQUIREMENTS

To combat the growing problem of identity theft, the Federal Trade Commission (FTC) issued new "Red Flag" rules that apply to all municipalities that have utility accounts such as water, sewer or electricity. Municipalities have until December 31, 2010, to have written programs to identify, detect, and respond to patterns, practices, or specific activities – known as red flags – that could indicate identity theft. Examples of red flags include alerts, notifications, or warnings from a consumer reporting agency, forged or inconsistent customer identifying information, as well as many other examples described in the FTC rules.

We recommend the Town establish procedures to address the Red Flag documentation requirements by the December 31, 2010 deadline to assure compliance with this new Federal requirement.

The rules can be found at:

[www.ftc.gov/os/fedreg/2007/november/071109redflags.pdf](http://www.ftc.gov/os/fedreg/2007/november/071109redflags.pdf)

## **PRIOR YEAR ISSUES:**

### 15. **CONSIDER IMPLEMENTING INTERNAL CONTROL IMPROVEMENTS**

In accordance with a generally accepted audit standard (SAS 112), which became effective for all fiscal year 2007 audits, certain recommendations were made in the prior year that were intended to strengthen overall internal controls. The governing body of the Town should evaluate the cost/benefit of these issues to determine whether corrective action is warranted.

#### **Document Components of Internal Control:**

In order to improve and maintain the existing system of internal controls, the Town should consider documenting the policies, procedures and controls over key financial transactions, including cash, tax/excise/utility receivable activity, departmental receipts, purchasing, vendor disbursements, employee benefit/payroll disbursements, and general ledger maintenance. This documentation could be used by departments as guidance to help safeguard assets, properly record transactions, and provide a basis for continuing operations when turnover occurs in key financial departments. Although the Town maintains certain policies and procedures and adheres to various State regulations and guidelines, these do not address all key transactions, nor are they distributed to all applicable departmental personnel.

We recommend the Town consider developing and implementing policies and procedures to provide guidance to departments over any areas not currently addressed. We further recommend that the existing procedures, as well as any created in the future, be evaluated within an established internal control framework, such as the model developed several years ago by the Committee of Sponsoring Organizations (COSO). The COSO model outlines five components of effective internal control: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring. The Town should consider these components when assessing the effectiveness of existing or future internal control procedures.

#### **Establish Internal Audit Function:**

Massachusetts General Laws provide powers and duties to the Town Accountant to perform internal audit functions, including examining the books and records of all departments responsible for receiving and expending funds, and proving all cash balances at least annually. Internal audits are an important control measure to provide some assurance that procedures are actually being performed in accordance with management's assertions, and that assets actually exist and are properly safeguarded. The Town historically has relied on the independent auditor to perform these functions. This reliance, however, increases the risk that errors or irregularities could occur and not be tested or detected by management.

The Town should consider, as part of its documented internal control procedures, establishing an internal audit function to properly monitor operations and assess risk of misstatement of the financial statement caused by either errors or irregularities.

16. INCLUDE LIBRARY TRUST FUND ACTIVITY IN TOWN'S GENERAL LEDGER

The Town has traditionally reported balances for various library trust funds in its general ledger as well as including them in the Treasurer's quarterly cash reconciliation reported to the State. The balances are recorded based on information provided at year end by the library Board of Trustees. Balances are adjusted from year to year through general entries as no activity is recorded in the Town's general ledger. In fiscal years 2002 through 2009, the balances were not updated, resulting in erroneous general ledger and Treasurer cash balances.

Because the Town is assuming a fiduciary duty over the library trust funds, we recommend the activity and resulting balances be recorded in the Town's general ledger. This activity can be recorded on a periodic basis based on supportable information provided by the library Board of Trustees. Implementation of this recommendation will provide assurance that the balances reported by the Town for the library trust funds are accurate and supportable, and that sufficiently detailed activity is recorded in the Town's general ledger.

17. UTILIZE TAILINGS ACCOUNT

The outstanding check lists for the Town's checking accounts include outdated (stale) checks totaling \$ 13,197 which are over a year old. Although the dollar value of these stale checks is not material, including them in each month's bank reconciliation increases the time required to perform the reconciliation. In addition, inclusion of these checks reduces the Town's available cash balance.

We recommend the Town create a tailings account and add these stale checks (outstanding more than one year) to the account. In addition, we recommend that procedures be implemented to clear these old outstanding checks as required by MGL Chapter 200A.

18. RECONCILE ALLOWANCE FOR ABATEMENTS (OVERLAY)

The Assessors' Office maintains an independent balance of the allowance for abatements (overlay) accounts but it is not reconciled to the general ledger. A good internal control system dictates that the Assessors' Office maintain a

balance of allowance for abatements and that this balance be periodically reconciled to the general ledger. As a result, there is assurance that all abatements granted are properly recorded in the general ledger and in a timely manner.

We recommend the Assessors' Office maintain a continuous record of all abatements and reconcile the balance of this record with the general ledger on a regular basis.