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TOWN OF BLANDFORD,
MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2003

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To The Board of Selectmen
Town of Blandford, Massachusetts

We have audited the general purpose financial statements of the Town of Blandford, Massachusetts as of and for the year ended June 30, 2003 and have issued our report thereon dated April 26, 2005. As part of our audit, we made a study and evaluation of the Town's system of internal accounting control to the extent we considered necessary to evaluate the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements.

The management of the Town of Blandford is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by them are required to assess the expected benefits and related costs of control procedures. The objectives of such a system are to provide reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with required authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may still occur without being detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This item is identified in the Table of Contents and comment headings.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness.

We are also submitting for your consideration a number of comments and recommendations which are not considered to be reportable conditions but are intended to improve operations and internal accounting control.

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

McLanahan, Heath + Company, P.C.

Greenfield, Massachusetts

April 26, 2005

CURRENT YEAR ISSUES

1. IMPROVE CONTROLS OVER TAX COLLECTION AND RECONCILIATION PROCEDURES (REPORTABLE CONDITION/MATERIAL WEAKNESS)

During fiscal year 2003, the Town opened a Collector's bank account. These bank accounts operate on an imprest basis, wherein tax collections are usually deposited daily or weekly (depending on frequency and amount of collections). At the end of the week, a check is issued for turnover to the Treasurer and deposited into the operating accounts of the Town. The balance in the account should reflect no more than one week's collections at any given moment in time.

At June 30, 2003, the Collector's account had a bank balance of \$ 195,097. We were unable to obtain a reconciliation of the bank balance to the Collector's records. We were also unable to obtain a schedule of the specific deposits that were not turned over to the Treasurer as of June 30, 2003.

Additionally, the detail reports of outstanding receivables provided by the Collector were less than the general ledger balances by \$ 218,403. We were unable to obtain a detailed reconciliation explaining this variance.

Given the significance of the variances, we performed additional procedures and were able to identify \$ 171,439 in fiscal year 2003 receipts that were turned over to the Treasurer between July 2003 and February 2004. There were three additional batches totaling \$ 46,624 that did not appear to have been turned over as of our fieldwork in May 2004.

After identifying the late turnovers, there remained several immaterial variances between the Collector's outstanding detailed receivable balances and the general ledger. As reported in previous management letter comments, the Collector does not maintain control totals, which would simplify this analysis and be used to identify the source of the remaining variances.

The lack of timely turnovers to the Treasurer in conjunction with inadequate reconciliation procedures significantly increases the risk of errors or irregularities occurring and going undetected. It also negatively impacts the cash flow of the Town and limits the Town's ability to monitor revenue collections in comparison to budget. The lack of a Collector's control schedule increases the difficulty in reconciling the detailed receivable balances to the general ledger.

We recommend the Town improve controls over tax collection and reconciliation procedures. This can be accomplished by requiring the following:

- Turnovers to the Treasurer on a weekly basis, and as of the last day of the month.

- Monthly reconciliation of the Collector's bank account to the Collector's records.
- Maintaining a log of all receipt batches to include the batch number, date of collection, amount and date of deposit into the Collector's account. The log should be updated with the date and check number of the turnover to the Treasurer and be reconciled to the Collector's cash balance at the end of each month.
- Implementing of a receivable control log that is reconciled to the detailed list of outstanding receivables and general ledger balances monthly. Any variances should be identified specifically and appropriately corrected.

Implementation of these procedures will reduce the risk of errors or irregularities occurring and going undetected, as well as improve cash flow and provide timely revenue reporting.

2. IMPROVE PROCEDURES TO ENSURE COMPLIANCE WITH PROCUREMENT ACT (COMPLIANCE FINDING)

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 three separate instances in the amounts of \$ 38,568, \$ 18,923 and \$ 6,269, respectively, wherein we were unable to obtain documentation of compliance with Chapter 30B. We also noted purchases made over multiple deliveries from one vendor, totaling approximately \$ 37,000, where there was no evidence that procurement requirements were met.

We recommend the Town review and revise, if necessary, its procedures to ensure compliance with Chapter 30B. This should include, but not be limited to, being aware of the total project costs in determining the appropriate procedures to employ to ensure compliance with the law. We further recommend that all documentation evidencing procurement be retained.

3. MONITOR DEPARTMENTAL RECEIPT PROCEDURES

The Town currently does not have procedures in place to monitor departmental receipts. The lack of departmental receipt monitoring increases the risk of errors and irregularities occurring and going undetected.

We recommend the Town Accountant establish formal procedures to monitor departmental receipts through:

- Periodic review of departmental receipt trends.
- Reconciling departmental turnovers to the Treasurer's reports.

- Performing periodic internal audits of the Town departments responsible for collecting receipts.

Additionally, we recommend the Town establish and implement written policies and procedures for all departments to follow when collecting and remitting receipts. These policies and procedures should address, at a minimum, the following: the uniform format of receipt records and receipt logs, establishment of audit trails, frequency of remittances to the Treasurer, and overnight security.

The implementation of these procedures would result in improved controls over departmental receipts and reduce the likelihood of errors or irregularities occurring and going undetected.

4. IMPROVE INTERNAL CONTROLS OVER DISBURSEMENTS

During our testing of internal controls over disbursements, we selected 27 vendor invoices and noted the following exceptions:

- Two instances of insufficient invoice documentation (i.e., lack of receipt).
- Three payments made from copies of invoices rather than from original invoices, increasing the risk of duplication of payments.

We recommend the Town require appropriate supporting documentation before allowing a payment to be processed.

5. IMPROVE CONTROLS OVER ABATEMENTS

Through our testing and review of commitments and abatements, we noted that a personal property tax bill was abated in full because it was charged at the wrong rate. (It was assessed at a personal property rate when it should have been assessed at the farm equipment rate.) Once abated, however, the tax bill was not recommitted at the correct tax rate.

We recommend controls be improved to ensure that all commitments are processed in a timely manner.

6. RETAIN DOCUMENTATION OF EMPLOYEE PAY RATES

The Town's Board of Selectmen approves employee pay rates. In our testing of five payroll expenditures, we identified three employee files that did not contain documentation of the Board of Selectmen's approval of the pay rate in effect at the time.

We recommend the Town retain documentation of each approved rate in the employee's file. This documentation could include either an individual salary agreement or a Town-wide salary scale, as approved by the Board of Selectmen.

7. INCLUDE OUTSTANDING CHECK NUMBERS IN BANK RECONCILIATION

While the Town Treasurer reconciles the bank statements monthly, we noted that two of the bank account reconciliations do not include the individual check numbers for some of the outstanding checks. This complicates the reconciliation process and can result in errors.

We recommend the Town Treasurer include the check numbers for all outstanding checks on the bank reconciliations. This will help to simplify the reconciliation process, provide a clear trail of the status of checks issued, and minimize the risk of errors.

PRIOR YEAR ISSUES

8. 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. The Town 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 liened 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.

9. IMPROVE WATER USER CHARGE COMMITMENTS PROCESS

Our audit revealed that water user charge commitments issued in the current fiscal year are actually for usage by customers in the prior fiscal year. While this may not be uncommon in municipalities, the commitments tested were issued significantly after the time period for which services were provided. The first and second commitments in fiscal year 2003 were issued seven and eight months after the usage periods ended. This timing is consistent with prior years billings.

As a result, the Town's water enterprise fund is collecting fees for services provided six to eight months in arrears. This situation results in poor cash

flows and is also responsible for the enterprise fund's reduced retained earnings balance.

We recommend the Town develop procedures to ensure water usage bills are issued within 30 days of a billing period's end. This will increase cash flow and improve the fund's retained earnings balance.

10. RECONCILE ALLOWANCE FOR ABATEMENTS (OVERLAY)

The Assessors' Office does not maintain an independent balance of the allowance for abatements (overlay) accounts but instead relies on 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.

11. REVIEW PROCEDURES FOR ENTERING EXECUTIVE SESSIONS

As in the prior year, our review of the Board of Selectmen's meeting minutes for fiscal year 2003 found several instances in which the Selectmen entered into executive sessions without following the appropriate procedures as dictated by Massachusetts General Laws (MGL) Chapter 39, Section 23. We noted that in several instances a roll call vote was not taken, the purpose for an executive session was not stated, and there were no statements as to whether or not the Board would reconvene after the executive session.

We recommend the Board of Selectmen follow the applicable MGL when entering into executive sessions.

12. IMPLEMENT RECONCILIATION PROCEDURES FOR KEY GENERAL LEDGER ACCOUNTS

Our inquiries found that several key general ledger accounts (including accounts receivable, payroll withholding and debt) are not reconciled on a regular (monthly/quarterly) basis.

Reconciliation of general ledger balances to supporting documentation and adjustments of activity and records is integral in ensuring the accuracy of the Town's accounting records.

We recommend the Town establish formal procedures to reconcile these key general ledger accounts on a monthly basis. This will provide additional assurance that accurate information is provided to Town management and will reduce the likelihood that errors or irregularities could occur and go undetected. This will also reduce the effort required to close the books at year end.

13. IMPROVE INTERNAL CONTROLS IN CERTAIN KEY DEPARTMENTS

A key component of any financial statement audit is the evaluation of internal controls. This evaluation is accomplished through inquiry, observation and testing. The following weaknesses were noted as a result of our evaluation of controls in several key Town departments:

Treasurer's Office:

- Certain departments do not remit receipts in a timely or consistent manner.
- Dual signatures are not required for large checks.

Town Accountant:

- The Town's general ledger is accessible to the Town Accountant and Treasurer and officials, thereby weakening the separation of duties between the accounting function and the treasury function.

We recommend the Town review, in conjunction with the above-noted deficiencies, the Town's overall internal controls in order to create an environment where the risk to Town assets is acceptably minimized.

14. 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 and 2003, 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 for the library Trust Funds 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.

15. CONSIDER UPGRADING INTERNET CAPABILITIES

Our inquiries found that the Town has extremely limited internet access.

Because many State report filings are required to be done electronically and many more will be in the future, we recommend the Town consider increasing its internet capabilities. Not only will this allow the Town to comply with future reporting requirements, but it will also avail Town employees of numerous informational sites available from various Federal, State and local agencies.

16. ESTABLISH TRAVEL-RELATED ADMINISTRATIVE REGULATIONS

The Town does not maintain formalized regulations to provide departments with documented guidance over travel-related administrative policies and procedures. As a result, inconsistencies may exist between departments with respect to such issues as:

- Prior approval of travel and conference attendance
- Travel and expense reimbursement limits
- Approval of travel and expense reimbursement

We recommend the Town develop formal regulations to provide current guidance over travel-related administrative policies and procedures. This should result in improved Town-wide consistency over travel-related expenditures.

* * *

All other prior year issues have been satisfactorily resolved.