

TOWN OF BLANDFORD, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2007

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
CURRENT YEAR ISSUES	
1. Consider Implementing Internal Control Improvements (Material Weakness)	3
2. Improve Controls over Tax Payments and Other Collections (Significant Deficiency)	4
3. Improve Procedures to Ensure Compliance with Procurement Act (Compliance Finding/Significant Deficiency)	5
4. Utilize Tailings Account	6
5. Improve Record Keeping – Assessors’ Office (Compliance Finding)	6
6. Ensure Allowability of Grant Expenditures	6
7. Reconcile Allowance for Abatements (Overlay)	7
8. Improve Controls over Disbursements (Material Weakness)	7
9. Reconcile Tax Roll to Tax Recap	7
10. Implement Reconciliation Procedures for Key General Ledger Accounts (Material Weakness)	7
PRIOR YEAR ISSUES	
11. Comply With Rural Development Agency (RDA) Regulations (Compliance Finding)	8
12. Comply With Equipment Management Requirements (Compliance Finding)	9
13. Establish More Aggressive Tax Collection Policy	9



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

51 Davis Street
Greenfield, MA 01301-2422
(413) 773-5405 • Fax (413) 773-7304
www.melansonheath.com

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, 2007, 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. Deficiencies considered to be significant deficiencies in internal control are noted in the table of contents and comment headings.

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. Deficiencies constituting material weaknesses are noted in the table of contents and comment headings.

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, Board of Selectmen, and others within the Town, 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

March 16, 2009

CURRENT YEAR ISSUES:

1. **CONSIDER IMPLEMENTING INTERNAL CONTROL IMPROVEMENTS (MATERIAL WEAKNESS)**

In accordance with a new generally accepted audit standard (SAS 112), which is effective for all fiscal year 2007 audits, independent auditors must now report issues (called "significant deficiencies") to the governing body. The definition of this term is included in the opening letter to this management letter.

SAS 112 specifically requires that certain situations, if present in the municipality, must be reported as a significant deficiency. Although these conditions may not be new to the municipality, and may be very common practices for Massachusetts municipalities, they must now be reported in the management letter. The governing body of the Town should evaluate the cost/benefit of these issues to determine whether corrective action is warranted.

The following summarizes certain of the current and past practices in the Town that meet the new criteria of significant deficiencies:

Establish Internal Controls over the Preparation of Audited Financial Statements:

Although the Town maintains its accounting records in accordance with standards established by the State statutes, and is able to prepare reports for internal and State purposes, historically, the annual financial statements have been drafted by the independent auditor. Because the Town must take full responsibility for the accuracy and disclosure of the financial statements, it must, either internally, or through the use of a qualified outside party (other than the independent auditor), review the financial statements and related footnote disclosures, to assure compliance with generally accepted accounting principles, and to verify that no material misstatements exist. Relying on the independent auditor to perform these functions is considered a control deficiency.

Corrective Action to be Considered:

The Town should either provide additional staff training in the area of preparing financial statement prepared under the GASB 34 reporting model or the retention of a service provider to prepare, assist in the preparation or reviewing the statements to ensure material misstatements are not present.

Document Components of Internal Control:

In order to establish an effective system of internal controls, the Town should document the policies, procedures and controls over key financial transactions, including cash, tax/excise/utility receivable activity, depart-

mental 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, they are not complete, or distributed to all applicable departmental personnel.

Corrective Action to be Considered:

Several years ago, the Committee of Sponsoring Organizations (COSO) of the President's Council on Integrity and Efficiency published comprehensive internal control guidance that has recently been put in place by publicly traded companies as a result of Sarbanes Oxley legislation. The COSO report outlines five components of effective internal control: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring. The Town should consider implementing a written internal control framework using the COSO model.

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.

Corrective Action to be Considered:

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.

2. IMPROVE CONTROLS OVER TAX PAYMENTS AND OTHER COLLECTIONS (SIGNIFICANT DEFICIENCY)

During our audit and as noted in prior years, we observed tax and other payments collected in Town Hall by personnel other than the Town Collector. Additionally, our inquiries revealed that payments intended for the Town Collector are often deposited in the Town's mailbox located at the front of the Town Offices and that individuals other than the Town Collector have a key for this mailbox. These practices result in inadequate internal controls over the

Town's receipts in regard to tax and other payments intended for the Town Collector, as individuals who may receive payments are not appropriately bonded. Additionally, this situation can create an inadequate segregation of duties, depending on who actually collects these receipts.

We recommend the Town prohibit employees other than the Town Collector, from receiving tax and other payments. Implementation of this recommendation will improve security over Town receipts as well as ensure an adequate segregation of duties.

3. IMPROVE PROCEDURES TO ENSURE COMPLIANCE WITH PROCUREMENT ACT (COMPLIANCE FINDING/SIGNIFICANT DEFICIENCY)

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 several instances of non-compliance including:

- Gravel and stone was purchased for road repairs during the April 2006 flood. The Town contends this was an emergency procurement but could not provide any documentation to support this contention. Documentation evidencing an emergency procurement required under MGL Ch. 30B must include a documentation of the basis for determining an emergency exists. Additionally, an emergency procurement must be reported to the "Goods and Services Bulletin" for publication.
- The Town could not provide evidence of obtaining written quotes for the cleaning of oil/water separator repairs of approximately \$ 7,200.
- The Town purchased water meter equipment exceeding the threshold requiring compliance with Chapter 30B, however, the Town could not supply evidence of compliance. The Town contends these purchases were from sole source vendors but written determination evidencing this contention could not be provided.

In order to avoid these situations in the future, we recommend the Town's Chief Procurement Officer maintain all bid and quote files for the legally required amount of time. Additionally, as a method of checks and balances, we recommend that all bills submitted to the Town Accountant for payment contain a certification that all applicable bid requirements have been met in accordance with Massachusetts General Laws. Implementation of these recommendations will ensure that the appropriate bid procedures have been followed and that supporting documentation is properly retained and accessible.

We also recommend the Town comply with the documentation requirements involved in declaring a procurement an "emergency procurement" and sole source.

4. UTILIZE TAILINGS ACCOUNT

The outstanding check lists for the Town's checking accounts include outdated (stale) checks totaling \$ 1,800 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.

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

During audit fieldwork, the Assessors were unable to provide a copy of a personal property abatement application form selected for testing.

As custodian of Town records, the Assessors must safely store and retain original records. 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. ENSURE ALLOWABILITY OF GRANT EXPENDITURES

In fiscal year 2007, the Town incurred \$ 4,275 of interest costs on short-term borrowing to finance its water improvement project. The water improvement project is being funded by a grant/loan from the Rural Development Agency (RDA), and interest costs are not an allowable cost of the grant or loan.

We recommend the Town reclassify the \$ 4,275 interest payment from Water Improvement Capital Project Fund to the Town's Water Enterprise Fund after the appropriate Town meeting action to appropriate available funds.

7. 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.

8. IMPROVE CONTROLS OVER DISBURSEMENTS (MATERIAL WEAKNESS)

During our detailed testing of internal controls over disbursements, we noted one instance where the vendor invoice and cancelled check could not be located.

Proper documentation procedures are an integral part of a good system of internal controls and provide assurance that the Town's expenditures are legitimate and accurate. We recommend the Town improve controls over disbursements by requiring original invoices or receipts that clearly identify what is being purchased.

9. RECONCILE TAX ROLL TO TAX RECAP

The personal property assessed valuation per the tax recap did not agree to the total valuation listed on the tax roll (list of individual taxpayers). Although the tax affect is immaterial, it is essential that these two documents reconcile since the tax recap establishes the tax levy, and the tax roll generates the individual tax bills. If these are not reconciled, it is possible that either the total tax levy is not actually billable or that the total tax bills issued exceed the approved tax levy.

We recommend the Assessors' Office verify the valuations prior to the submission of the tax recap. This will provide additional assurance that the tax levy is based on billable valuations.

10. IMPLEMENT RECONCILIATION PROCEDURES FOR KEY GENERAL LEDGER ACCOUNTS (MATERIAL WEAKNESS)

Our inquiries found that accounts receivable 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.

During our testing we noted that real estate, personal property, motor vehicle excise, and water receivables as 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.

We recommend the Town establish formal procedures to reconcile 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 and assure that free cash certifications can be completed in a timely manner. This will also reduce the effort required to close the books at year end.

PRIOR YEAR ISSUES:

11. COMPLY WITH RURAL DEVELOPMENT AGENCY (RDA) REGULATIONS (COMPLIANCE FINDING)

The Town is currently undergoing a significant water system improvement project federally funded through the Rural Development Authority (RDA) and administered for the Town by an independent engineering firm. According to Town officials, some of the bids for the project came in lower than anticipated and resulted in funds being available for "re-programming". The funds were reprogrammed for the purpose of mapping the Town's water lines and identifying the current users and potential users of water. According to the independent engineering firm and Town officials, the "re-programming" of funds received the approval of the RDA; however, no documentation of this approval could be provided and we were unable to confirm the approval with the funding source. We also were unable to obtain a written project scope amendment from the engineering firm or other documentation to describe the scope of the task to be performed.

The Water Commissioners wanted to use Town employees to complete the mapping project since they would already have access to the necessary

documentation as well as familiarity with the Town. According to Town officials, the RDA informed the Town the funds could not be used to pay Town employees. The engineering firm then agreed to hire two Town employees to perform the task and charge them to the project as the firm's employees. According to the engineering firm, the oversight and monitoring of the mapping project remained the responsibility of the Water Commissioners.

A total of \$ 1,578.50 hours were charged to the mapping project. The maps produced by one of the employees cannot currently be located. The maps produced by the second employee were not, in the estimation of the Town, sufficient to justify the \$ 1,279.50 hours the employee charged to the project. As a result, we have questioned the costs (\$ 39,462.50) related to the charges for the mapping project.

We recommend the Town comply with grant regulations by ensuring grant expenditures are allowable and are a reasonable and efficient use of resources.

12. COMPLY WITH EQUIPMENT MANAGEMENT REQUIREMENTS
(COMPLIANCE FINDING)

Federal regulations require equipment and property acquired under Federal awards to be tracked through the maintenance of inventory lists which identify the items, including: a description, serial/identifying number, source, acquisition date, cost, who holds the title, and percentage of Federal participation in the equipment or asset. The regulations further require periodic physical inventories of Federally-funded equipment and property, as well as the maintenance of details on disposals. Although the Town has installed several water meters and performed material capital improvements on the water mains that were funded through the Rural Development Authority (RDA) loan/grant program, the Town has not complied with the documented equipment management regulations.

We recommend the Town comply with the equipment management requirements through the establishment of detailed lists of Federally-funded equipment and property. We further recommend the Town periodically inventory the equipment and maintain details of any disposals as they occur.

13. 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 lien 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.