

TOWN OF BLANDFORD, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2008

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MH&Co

Melanson Heath & Company, PC

Certified Public Accountants
Management Advisors

51 Davis Street
Greenfield, MA 01301
Tel (413) 772-2546 Fax (413) 772-2547
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, 2008, 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 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement

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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 several 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.

This communication is intended solely for the information and use of management, 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
November 9, 2009

CURRENT YEAR ISSUES:

1. **IMPROVE RECORD KEEPING – ASSESSORS’ OFFICE (COMPLIANCE FINDING/MATERIAL WEAKNESS)**

During our audit, we noted the Assessors office was unable to locate all the personal property and excise tax abatements issued during the fiscal year.

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.

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 the warrant was not approved
- Three invoices were not approved for payment by the Department
- One instance where an invoice for truck repairs was charged to training and supplies

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, authorization and retention of invoices.

3. **IMPLEMENT RECONCILIATION PROCEDURES FOR ACCOUNTS RECEIVABLE (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 to ensuring the accuracy of the Town's accounting records.

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

- Real estate taxes receivable could not be reconciled to the Collector's detail. The variance is material and results in an audit opinion exception.
- Water use charges could not be reconciled to the Collector's detail. The variance is material and results in an audit opinion exception. In addition, numerous audit adjustments, to adjust commitments to actual, and remove liens from user charges, were needed to correct these accounts.
- Water liens and motor vehicle excise receivables as reported in the general ledger were at variance with the Collector's detail although the variances were not considered to be material.
- Two batches totaling approximately \$ 55,000 were recorded by the Collector as receipts in fiscal year 2008 but not turned over to the Treasurer or Accountant until fiscal year 2009. Had a reconciliation occurred, this timing difference would have been discovered and the revenue recorded in the correct fiscal year.

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 all accounts receivable balances 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.

4. IMPROVE BUDGET PREPARATION

In fiscal year 2008, the Town established revolving funds for electrical, plumbing, and building fees. The estimated revenue for these fees was also included in the general fund budget as an estimated local receipt. This resulted in a revenue shortfall of approximately \$ 5,500 in general fund.

Additionally, we found that revenue estimates were not projected conservatively. Under Massachusetts General Laws, shortfalls in revenue that are not

offset by underexpended appropriations are called “revenue deficits” and must be raised or funded in the subsequent year. To avoid this situation and to promote general fiscal health, revenue estimates should be as conservative as possible.

In fiscal year 2008, the Town had a revenue surplus, excluding property tax revenue, of approximately \$ 15,000. In addition, the Town overexpended appropriations by approximately \$ (7,000), resulting in a net budgetary increase of approximately \$ 8,000. While the Town was not penalized this year, care should be taken in establishing future revenue estimates.

We recommend the Town review future revenue estimates to ensure they are both accurate and as conservative as possible. This will reduce the risk that a revenue deficit will occur and will promote sound financial planning.

5. IMPROVE CONTROLS OVER EMPLOYEE PAY RATES

In our testing of five payroll transactions, we noted three 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 the hiring of an employee and that these letters are given to the Treasurer to be retained in the employee’s file.

6. IMPROVE TIMELINESS OF TRUST FUND CASH TRANSFERS

The Town’s trust fund activity is accounted for in the general ledger accurately; however, the ending general ledger balances do not agree with the Treasurer’s trust fund cash balance.

This resulted from an approved transfer from the Town’s Stabilization account being recorded in the general ledger; however, the cash was not transferred from the trust fund cash account to the operating cash account. As a result, while the Town’s general ledger and treasurer’s cash balances reconciled in total, there was a variance in the trust fund cash balance of \$ 10,000.

We recommend that trust fund transfers be made in a timely manner. This will help to ensure an accurate and timely reconciliation of trust fund cash balances with the Town’s general ledger.

7. RECONCILE TAX ROLL TO TAX RECAP

As noted in prior years, 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). The personal property valuations per the recap were approximately \$ 1.6 million more than the actual commitment, resulting in budgeted property tax revenue approximately \$ 17,000 greater than actual tax commitments. 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 committed (billed) 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.

PRIOR YEAR ISSUES:

8. 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.

9. UTILIZE TAILINGS ACCOUNT

The outstanding check lists for the Town's checking accounts include outdated (stale) checks totaling \$ 2,300 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.

10. 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.

11. 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 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.

12. 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 2008, 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.