

TOWN OF BLANDFORD, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2010

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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, 2010, 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

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timely basis. Material weaknesses 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.

This communication is intended solely for the information and use of management, the Board of Selectmen, 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

November 16, 2011

CURRENT YEAR ISSUES:

1. **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:

- Property taxes, including real estate and tax liens receivable could not be reconciled to the Collector/Treasurer's detail. The variance was material and resulted in an audit opinion exception.
- Water use charges and water liens receivable could not be reconciled to the Water Department's detail since the detail list of balances outstanding could not be located. The variance was material and resulted in an audit opinion exception.
- Personal property taxes 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.
- The real estate tax commitment included amounts for water liens and septic loan betterment. Water liens and septic loan betterments should be issued on a separate commitment.

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. These variances are partly responsible for the Town's negative free cash position at June 30, 2010.

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 and help improve the Town's free cash balance.

2. IMPROVE CONTROLS IN THE TAX COLLECTOR'S OFFICE (MATERIAL WEAKNESS)

During our review of Tax Collector's office procedures, we noted several areas where controls should be improved.

- Improve Documentation of Cash Receipts
Receipts in cash (currency) are not coded as such on the tax receipt stubs, in the tax receipt system, or on the deposit slip. Because of the increased exposure in handling cash, it is very important that a clear audit trail exist from the time cash is accepted to the time it is deposited in the bank.

We recommend the Tax Collector's Office include a notation on the receipt stub of those payments that were made by cash and that the Office take steps to ensure currency transactions are coded as such when taxpayer accounts are entered into the receipt system. Also, the amount of currency deposited should be proven to the receipt stubs and daily receipt posting reports. This will improve controls over cash receipts and will minimize the risk of irregularities occurring and going undetected.

- Increase Frequency of Tax Collector Turnovers
During the fiscal year we observed that the average monthly cash balance in the Tax Collector's bank account was approximately \$ 234,000 and during one month reached a high of approximately \$ 558,000. The cash balance in the Tax Collector's bank account on June 30, 2010 was approximately \$ 308,000. Because no reconciliation of the account was provided, no receipt detail was available, and this balance was material, we were unable to form an opinion on the Town's cash balance at June 30, 2010.

We recommend the Tax Collector increase the frequency of turnovers to the Treasurer. This will streamline the Town's cash management and help maximize investment returns.

3. IMPROVE PROCEDURES FOR DOCUMENTING BID COMPLIANCE (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 one instance of noncompliance where \$ 6,032 was paid for road repair supplies and, therefore, three written quotes should have been obtained.

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

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.

4. IMPROVE CONTROLS OVER DISBURSEMENTS

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

- Three instances 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. In addition, the reimbursement did not include a receipt for all amounts requested for reimbursement and the business purpose of the trip was not stated.
- One instance where an original invoice could not be located.

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.

5. ESTABLISH FUND BALANCE GOALS

While the Town's fund balance increased slightly during 2010, the general fund undesignated fund balance was only \$ 204,798 at June 30, 2010, compared to approximately \$ 867,000 at June 30, 2005. In addition, the Town's free cash for fiscal year 2010 was certified as a deficit of \$ (159,523). 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. Since the Town has very limited reserves, emergency and unforeseen expenditures would require a special town meeting to appropriate funds. In addition, this lack of flexibility hinders the Town's capital planning capability, forcing the Town to borrow funds or do without.

While some tax title takings were done in fiscal year 2010, we recommend the Town continue to make a concerted effort to collect unpaid property and excise taxes which have increased significantly over the past several years. Towards this end, we recommend the Town commit sufficient resources to allow properties to be placed in tax title in a timely manner (see comment in prior year section) 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). This excess is partly responsible for the Town's negative free cash position at June 30, 2010.

6. PREPARE FOR NEW ACCOUNTING STANDARD

Beginning in fiscal year 2011, the Town will need to implement a new accounting standard, called the *Governmental Accounting Standards Board (GASB) Statement 54 - Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes new criteria of special revenue funds, and new classifications of governmental fund balances. Certain Town-established funds, such as stabilization, will no longer be reported separately, but instead will be reported in the general fund for the year end audited financial statements. In addition, the classifications of reserved, designated and unreserved fund balances, will be replaced with new classifications of nonspendable, restricted, committed, assigned, and unassigned fund balances.

We recommend the Town begin planning for the implementation of GASB 54, which includes gaining an understanding of the new requirements, possible chart of accounts revisions, and training to internal users of the audited financial statements.

7. OTHER ISSUES

The following section of the management letter identifies several other recommendations for improvements which are reported in a summarized manner. Some of these issues were also noted in the prior year. We will be available to discuss these with the Selectboard in more detail to assure that there is a clear understanding of the issues and recommendations.

- Establish Separate Tax Lien Receivable Account in Water Fund
The Town should consider establishing a separate tax lien receivable account in the Water Enterprise Fund since these operations are accounted for separately.
- Reconcile Trust Fund Balances
The Treasurer should reconcile trust fund balances with the general ledger on at least a quarterly basis. At June 30, 2010, the Treasurer's trust fund balance was at variance with the Town's general ledger by approximately \$ 5,700.
- Switch From Flat Rate Billing to Meter Reading
In 2007 the Town purchased new meters to allow water charges to be billed based on actual usage instead of on a flat rate. It is our understanding that the meters are still not being read for monthly billing.
- Develop a Current Employee Handbook
The Town should update and consolidate the existing employee handbook to address current regulations and clarify policies for employees, such as work hours, payroll cycle structure and compensatory time limits.
- Document Components of Internal Control
The Town should consider developing and implementing policies and procedures over key financial transactions, including cash, tax/excise/utility receivable activity, departmental receipts, purchasing, vendor disbursements, employee benefit/payroll disbursements, and general ledger maintenance. 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

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 statements caused by either errors or irregularities. 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 detected by management.

- Implement GASB Statement 45

We recommend the Town implement Governmental Accounting Standards Board Statement 45 which addresses other post-employment benefits (OPEB) provided to terminated or retired employees and their dependents and beneficiaries. While this standard was applicable to the Town in 2010, it was not implemented and resulted in an audit exception.

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 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.

While the Town did perform some tax takings in 2010, there are still large receivable balances that should be lienied.

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 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 years 2009 or 2010. The current portion of the loan was added to the fiscal year 2010 real estate tax bill; however, that portion of the bill was never paid and was still outstanding at June 30, 2010. 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 PAYROLL RECORDS

For the second year in a row, our testing of five payroll transactions 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. In addition, timesheets could not be located to support the payment of police outside detail wages.

We recommend the Town issue appointment letters upon hiring an employee and that these letters be given to the Treasurer and retained in the employee's file. We also recommend that supporting documentation for all payroll paid be retained in a central location.

11. 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 2010, 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.

12. 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 balance be periodically reconciled to the general ledger. This would provide additional assurance that all abatements granted are properly recorded in the general ledger and that they are posted in a timely manner.

We recommend the Assessors' Office overlay balance be reconciled with the general ledger on a regular basis.