

TOWN OF BLANDFORD, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2011

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To the Board of Selectmen

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, 2011, 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 and other deficiencies that we consider to be significant deficiencies.

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies 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.

December 3, 2012

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, and the lack of reliable detail receivable reports we noted the following issues:

- Property taxes, including real estate, personal property 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.
- Excise taxes could not be reconciled to the Collector detail. The variance was material and resulted in an audit opinion exception.
- Water user charges and water liens receivable could not be reconciled to the Water Department's detail. The variance was material and resulted in an audit opinion exception.
- Due to a number of factors including missing documents and unsupported transactions, the detail reports provided by the Collector's Office for real estate, personal property, water user charges and water liens receivable balances are not considered entirely reliable; however the general ledger balances were reduced to agree with these reports.

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 has also delayed 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 for the past several years.

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)

As noted in the prior year, during our review of Tax Collector's office procedures, we noted several areas where controls should be improved.

- Improve Documentation of Amount and Type of Receipt

If a taxpayer pays an amount that is different from the amount of the tax bill, it is not noted on the receipt stub. When the amount paid is different and not noted it makes the reconciliation of the day's work more difficult. In addition, receipts in cash (currency) are not consistently coded as such on the tax receipt stubs, especially in cases where the payment was a combination of cash and check. 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 maintain an audit trail over all cash receipts, including notation on the receipt stub and in coding 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 reduce 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 \$ 264,000 and during one month reached a high of approximately \$ 440,000. The cash balance in the Tax Collector's bank account on June 30, 2011 was approximately \$ 167,000.

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.

As noted in the prior year, in testing for compliance with MGL Chapter 30B, we noted two instances where evidence that bid procedures were followed was not provided.

In addition, the Town does not currently require departments to 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 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 PROCEDURES OVER RECEIVABLE ACCOUNTS (MATERIAL WEAKNESS)

During our testing of receivable accounts we noted the following issues:

- Abatements are not posted to the general ledger by the Accountant based on signed forms from the Assessor. Instead they are posted based on packet proof forms which do not break out the type of abatement (real estate, motor vehicle, etc.). Abatements should only be posted to the general ledger based on signed abatements.
- The Assessor's Office issued a negative commitment for an error discovered in valuations. This should have been processed as an abatement, which would have resulted in a negative overlay balance. The Town would then need to raise the deficit on the subsequent year recap.
- The Water Department could not provide the fiscal year 2011 commitments. The commitments are recorded in the general ledger based on the amounts billed per the Collector's control book, not the signed commitments from the Water Department. Signed quarterly commitments should be given to the Collector and Accountant when issued.
- The Collector did not provide the Treasurer or the Accountant with the tax title commitments, instead, the Treasurer had to search the recordings from the registry of deeds to determine the amounts liened. In addition, the related real estate tax receivable balance was not adjusted (reduced) when the tax title commitment was recorded in the general ledger.
- During fiscal year 2011 the Collector turned over excise tax receipts, however, the Accountant was unsure which fiscal year to post the receipts against, so they were posted to an undistributed receipt liability account.

- An entry was made to record the water lien commitment in the general ledger, but the user charge amount was never removed from the receivable account. In addition, the backup for the commitment could not be located, therefore we were unable to determine what the correct entry should have been.
- In fiscal year 2010 the Collector turned over approximately \$ 44,000 in tax title receipts but did not include the taxpayers name, or a breakout of principal and interest. As of the fiscal year 2011 audit fieldwork in July 2012, these receipts still had not been researched and posted to the correct taxpayer accounts.
- The Treasurer does not break out tax title principal and interest amounts until the final payment. All payments are posted to the receivable balance first and an adjustment is made for interest when the final payment is made. Interest should be calculated for every payment and credited first, to ensure the Town receives the full and correct amount of interest before the lien is released at the registry.

We recommend the Town improve controls and procedures over receivable accounts. 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. This will also reduce the effort required to close the books at year end and help improve the Town's free cash balance.

5. IMPROVE CONTROLS OVER DISBURSEMENTS (SIGNIFICANT DEFICIENCY)

For the third year in a row, we noted exceptions during our detailed testing of internal controls over 25 vendor disbursements. Specifically we noted the following:

- Five instances where an invoice was not approved for payment by the department.
- Two instances where a warrant was not signed.
- One instance where a warrant could not be located.
- 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.

6. ESTABLISH FUND BALANCE GOALS

The Town's free cash for fiscal year 2011 was certified as a deficit of \$ (314,008). Fiscal years 2010 and 2009 were certified as deficits of \$ (159,523) and \$ (70,232), respectively.

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 unassigned 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 2011, 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 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, 2011.

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.

- Track General Fund Revenue Budget in General Ledger
Revenue budgets are not input into the general ledger. Approximately \$ 75,000 of cherry sheet revenue was not received until fiscal year 2012, but should have been recorded in fiscal year 2011 (where it was

budgeted). If revenue budgets were kept in the general ledger and monitored, this shortfall would have been detected.

- Improve Documentation of Meeting Minutes

Our review of the Selectboard meeting minutes found that the minutes for several meetings were not completed and available for review upon request. We recommend the Town establish a timetable for the completion of meeting minutes.

- Reconcile Trust Fund Balances

The Treasurer should reconcile trust fund balances with the general ledger on at least a quarterly basis. At June 30, 2011, the Treasurer's trust fund balance was at variance with the Town's general ledger by approximately \$ 33,000.

In addition, in the past few years market value adjustments were posted to non-expendable trust fund balances. These adjustments should be posted to the expendable trust balances instead.

- 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.

- Improve Controls Over Septic Loans

In August 2008 the Town issued a septic loan to a resident for approximately \$ 20,000. 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 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.

- 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 has not been implemented and has 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 and 2011, 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 EMPLOYEE PAYROLL RECORDS

For the third year in a row, our testing of payroll transactions noted instances where the pay rate for an 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.

10. 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 2011, 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.

11. 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.