

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF BLACKSTONE, MASSACHUSETTS

Management Letter

Year Ended June 30, 2018



TOWN OF BLACKSTONE, MASSACHUSETTS

MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2018

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Board of Selectmen
Town of Blackstone
Blackstone, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Blackstone, Massachusetts (the "Town") as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

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 a 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 timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 19, 2018

OVERVIEW

The nationwide economic recovery (and in some sectors the economic boom) continued throughout fiscal year 2018. Employment figures and GDP continue to surpass expectations and the Massachusetts economy continues to prosper. Real estate values are at record highs in many areas of Massachusetts, including many neighborhoods within the Town.

In its governmental funds financial statements, which most closely resembles the Town's statutory accounting records, the Town's unassigned fund balance in its general fund approached \$5.3 million at June 30, 2018, which is consistent with the prior year. Included in this figure is approximately \$3.2 million in stabilization funds.

The Town's liquidity continues to be strong. Liquidity in the general fund is often measured by comparing both the unassigned fund balance to the current year's total fund expenditures. Credit rating bureaus often refer to this as a "reserve ratio." At June 30, 2018, the unassigned fund balance in the general funds approximated 26% of total general fund expenditures. Furthermore, the total fund balance in the general fund approximated 38% of that same amount.

The Town established an OPEB trust in fiscal year 2016 and has made contributions of \$250,000 to this trust in each of the past three fiscal years. At June 30, 2018, the fair value of the OPEB trust's assets approached \$899,000. As a result of these significant contributions, the Town's independent actuary estimates that, as of June 30, 2018, the Town's future OPEB liability has been funded nearly 22%. This funding percentage is significant in comparison to other Massachusetts municipalities, many of which have not yet established similar trusts.

The Town's budgetary flexibility, strong reserve ratio and planning/funding for its future obligations has undoubtedly been seen as positive factors to S&P. In connection with a July 2015 general obligation bond offering, Standard & Poor's Rating Services, or S&P, assigned a credit rating of AA+, which is one step below S&P's highest rating of AAA. This high credit rating enables the Town to enjoy very favorable terms in the municipal bond market.

The remainder of this letter includes information items as well as findings and recommendations management should consider. The ultimate disposition of these items is a management matter.

INFORMATIONAL ITEMS

OPEB Adoption

As discussed in our previous letter to management, the Town was required to adopt a new accounting standard related to OPEB in fiscal year 2018. Since fiscal year 2009, the Town had been reporting an OPEB *obligation* in its government-wide and proprietary funds financial statements. Essentially, the OPEB obligation was the accumulation of shortfalls between the amount the Town should fund an OPEB plan (its annual required contributions) and the amount the Town paid on a pay-as-you-go basis. The adoption of the new OPEB accounting standards required the Town to actuarially determine the present value of its future OPEB *liability* and record this liability, net of any OPEB trust funds, in its government-wide and proprietary funds financial statements.

As expected, the adoption of this new accounting standard materially affected the Town's financial condition. A prior period restatement of approximately \$1.1 million was made to the beginning net positions of the Town's governmental activities and business-type activities.

The Town established an OPEB trust fund several years ago and has accumulated nearly \$899,000 through June 30, 2018. As it stands at June 30, 2018, the OPEB trust fund is approximately 22% funded. This funding ratio is among one of the highest in the Commonwealth based on the limited public information available at this time.

Tax Title Receivables

The Town's tax title receivables balance at June 30, 2018 exceeded \$740,000, which for a municipality of its size (approximately \$14.4 million in residential property tax assessments in fiscal year 2018) is quite large. Excessive receivables are consumptions of the Town's available resources and may indicate a weakness in the Town's collections process.

An analysis of tax title receivables should be performed and the Town should step up collection efforts on delinquent accounts up to and including the sale of these receivables to a third-party collection firm.

Inactive Special Revenue Accounts and Carryforward Articles

The Town maintains a number of special revenue and capital project accounts that have had no activity in the past two years. Specifically, we observed (a) eight federal and state grants funds with no activity in 2018 totaling \$79,461, (b) fifteen other revolving accounts totaling \$109,096 with no activity in 2018 and (c) fifteen articles approved in Town Meetings predating May 2015 with remaining balances of over \$300,000.

An analysis should be performed on these inactive balances and the appropriate corrective actions taken if needed.

Fraud Prevention Measures

In our January 19, 2017 letter to management, we described the most common forms of fraud risk that towns of similar size and constitution as Blackstone most commonly face. Due to changes in personnel within the Town's accounting and treasury functions, enhancements to the Town's internal control system could not be achieved in the short time from the date of our letter to the conclusion of fiscal year 2017. We continue to stress the need for the following:

- Periodic review of vendor and payroll master files within MUNIS for relevance and deactivating vendors with little to no activity in recent years and terminated employees;
- Developing a trend analysis of all revenue types in order to spot irregularities or anomalies; and
- Performing "spot audits" or business reviews for departments processing cash.

We refer you to our letter dated January 19, 2017 for more detailed discussions surrounding these matters.

FINDINGS AND RECOMMENDATIONS

Elected Treasurer/Collector

In May 2017, the Town voted down a measure that would have made the position of Treasurer/Collector an appointed position versus an elected position. We noted the following in our letters to management dated January 19, 2017 and November 30, 2018:

- Elected treasurer/collectors have been steadily declining and Massachusetts municipalities have realized that this has become a very specialized field;
- Neighboring communities of Franklin and Milford recently approved the change from elections to appointments;
- The Division of Local Services of the Massachusetts Department of Revenue consistently recommends that this position be appointed versus elected;
- The Town's size in terms of population greatly limits the talent pool capable of performing the critical financial duties of a treasurer/collector; and
- An unqualified party elected into this position exposes the Town to unacceptable levels of risks.

In early fiscal year 2019, the Town's elected treasurer/collector and its appointed assistant treasurer/collector each resigned within weeks of each other. This placed the Town in the position of having no one to complete the day-to-day duties of this invaluable position. Temporary consultants are often needed at these times of unusual employee turnover, which tend to be very costly. Additionally, the Town must perform a special election to replace the former treasurer/collector.

We continue to recommend that the Town change the means by which its Treasurer/Collector is selected.

Reporting Fair Value of Investments

As we reported in our January 19, 2017 and November 30, 2018 letters to management, the Town reports the carrying value of its stabilization and capital investment funds on an amortized cost basis versus at their fair value. Under this method, unrealized gains and losses are not recorded in the underlying accounting records. Investments are carried at their initial cost and only interest/dividend income and realized gains and losses from the sale of investments are recorded.

The Town is not unique in its accounting method for investments. Many Massachusetts municipalities record and report their investments in this manner, which up until several years ago was the preferred method by the Division of Local Services of the Massachusetts Department of Revenue ("MA DOR"). However, the MA DOR instructed municipalities to report investments at fair value several years ago, which is consistent with generally accepted accounting principles.

The Town's investment approach for its general investments, which are exclusive of its OPEB investments that are separately managed, is highly conservative; preservation of capital is paramount in its investment strategy. As a result, the Town is primarily invested in U.S. treasuries and agency securities, corporate fixed income securities and certificates of deposit. In fiscal year 2018, these investments were negatively affected by, among other things, rising interest rates and the continued strong performance of equity markets. The fair value of the Town's capital and stabilizations investments declined approximately \$173,000 in fiscal year 2018. While this decline in fair value is

significant, it is also noteworthy that the fair value decline was offset by nearly \$160,000 in investment income earned on these investments. Short of an emergency financial crisis in the Town, the Town intends to hold these investments to maturity, which will preserve its initial capital investment.

The Town treasurer was unaware of the extent of these unrealized losses/declines. Had the Town recorded its investments at fair value, monthly declines in these market values would have likely been more quickly identified by the Town's accountant and its administrator. Recording the fair value of investments in the Town's underlying accounting records provides the Town with better information to make more informed investment decisions.

We recommend that the Town record its investments at fair value based on the monthly reports provided by the investment manager.

Indirect Costs – Water and Sewer Enterprise

As reported in our January 19, 2017 and November 28, 2017 letters to management, the water and sewer enterprises do not have dedicated employees. Rather, the Town allocates portions of its DPW, Assistant Town Accountant and Assistant Collector personnel costs to these enterprise funds based on their job duties as salaries and wages. In addition, some personnel benefits are also allocated to these enterprises. However, the water and sewer enterprises consume larger amounts of Town resources, which are not being properly assessed to these enterprise funds. This results in the Town's tax payers subsidizing portions of the water and sewer enterprises.

We understand that the Town will commence assessing an indirect cost charge to the water and sewer enterprises beginning in fiscal year 2019. However, the calculation that the Town will use is not inclusive of all shared Town services and therefore is incomplete.

As previously reported, the Commonwealth of Massachusetts has guidance on indirect costs for enterprise funds. We recommend that the Town identify all central services and costs that benefit the water and sewer enterprises and assess reasonable indirect costs based on this guidance.

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