

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

**TOWN OF BLACKSTONE,
MASSACHUSETTS**

Management Letter
Year Ended June 30, 2019



TOWN OF BLACKSTONE, MASSACHUSETTS

MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2019

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ROSELLI, CLARK & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park
Suite 4900
Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

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, 2019, 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.

A handwritten signature in cursive script that reads "Roselli, Clark & Associates".

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 27, 2019

OVERVIEW

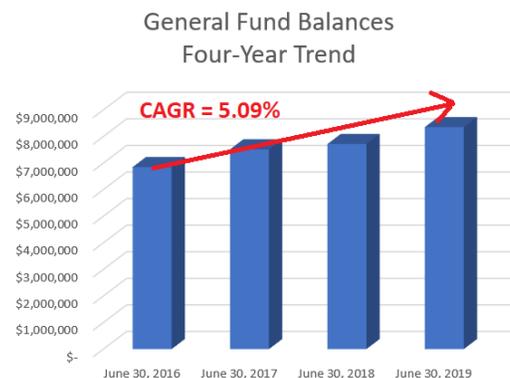
The U.S. economy continues to be strong as evidenced by low unemployment rates, rising wages, consumer confidence and an increasing workforce. International trade issues and tariffs appear to be the greatest threat to the nearly eleven years of consecutive economic growth.

On a more local level, the Federal Reserve Bank of Boston reports that the June 2019 Massachusetts unemployment rate was approximately 3%, which is far lower than the nationwide 3.7% rate. Average home price in Massachusetts increased approximately 3% year-over-year in fiscal year 2019. Real estate values are at record highs in much of Massachusetts, including many neighborhoods in the Town of Blackstone (the “Town”).

The Town’s financial condition at June 30, 2019 is good, as measured by the budgetary flexibility in its general fund. Budgetary flexibility is often measured by comparing the assigned and unassigned fund balances in the general fund to the current year’s total general fund expenditures. Credit rating bureaus often refer to this as a “reserve ratio.” At June 30, 2019, the Town’s reserve ratio was approximately 26%, which was consistent with the prior year. Credit rating bureaus would generally consider the Town’s reserve ratio to be very good, or even strong. Currently, Standard & Poor’s Rating Service assigns an AA+ credit rating to the Town’s general obligation bonds, which is its second highest rating and signifies that the Town has a very strong capacity to meet its financial commitments. This strong credit rating affords the Town to borrow funds for large capital projects at very favorable interest rates.

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, 2019 and its total fund balance was nearly \$8.4 million. The total fund balance in the Town’s general fund steadily growing for the past four years as illustrated in the table at right.

The Town’s current low level of debt coupled with the improvements made to its operations have given the Town good budgetary flexibility to meet its growing needs.



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 four fiscal years. At June 30, 2019, the fair value of the OPEB trust’s assets approached \$1,210,000. As a result of these significant contributions, the Town’s independent actuary estimates that, as of June 30, 2019, the Town’s future OPEB liability has been funded nearly 27%. This funding percentage is significant in comparison to other Massachusetts municipalities, some of which have not yet established similar trusts.

The remainder of the report reflects informational items and findings and recommendations. This discussion is intended to provide the Town and its management with recommendations for improvement in accounting and financial operations. Management has included responses to each item included in this letter, which have been identified as such in the following section to this letter.

INFORMATIONAL ITEMS

Network Security

Ransomware is an insidious type of malware that encrypts, or locks, valuable digital files and demands a ransom to release these files. The most common ransomware attack involves a victim opening an emailed file or clicking an attachment that appears legitimate like an invoice, but actually contains the malicious ransomware code. As these emails often appear to be legitimate, the victim is unknowingly baited into executing the ransomware code.

The frequency of ransomware attacks on U.S. municipalities continues to rise. The Associated Press reported in August 2019 about a coordinated ransomware attack that affected more than twenty local governments in Texas on a single day by what was then believed to be perpetrated by a single source. Ransomware attacks are opportunistic; the size of the victim organization and its available resources are not leading indicators to an attack. Once penetrated, ransomware attackers can cause a municipality's technology resources to come to a standstill.

Effective protection first requires a commitment from a municipality's leadership to dedicate the necessary resources to best protect the community. Technology personnel (internal and/or outsourced) must continuously exercise diligence in this area. Finally, this commitment then extends to all municipal employees who, whether they like it or not, are part of ransomware prevention/protection.

The U.S. FBI recommends that organizations provide ransomware training for their employees and employ robust technical prevention controls. The FBI also recommends developing a business continuity plan in the event of a ransomware attack. More detailed recommendations by the FBI Cyber Division can be found on the FBI's website.

The Town's technology plans incorporate a number of prevention and protection measures including deploying anti-virus and anti-malware software, managing network permissions and access, regularly backing up digital data, requiring users to rotate passwords periodically and providing employee training. We recommend that the Town perform a more in-depth analysis of its network security to mitigate the risk a ransomware attack would have on it.

Management Response – The Town acknowledges the increase of ransomware attacks within municipalities. The Town Administrator's office has been working closely with our outsourced information technology, or IT, vendor to protect the Town against any virus, malware, and ransomware attacks. In the Fall of 2019, our IT vendor installed new software to protect against these threats. The IT vendor regularly monitors our systems to prevent any future incidences.

New Lease Accounting Standard

In June 2017, the GASB released a new accounting standard relative to leases that will dramatically change the manner in which governments account and report lease transactions. This new accounting standard will apply to the Town's fiscal year 2021 financial statements.

Under this new accounting standard, many lease obligations that were previously accounted for by the Town as an expenditure similar to rent expense will be recognized as an asset with a corresponding liability (similar to debt). Additionally, if the Town leases property to another party, the Town will report a receivable for the present value of the future lease payments and a corresponding deferred inflow of resources.

GASB Statement No. 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial assets (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles and equipment. Any contract that meets this definition should be accounted for under this new accounting standard.

To effectively implement this accounting standard, the Town will need to perform the following for its lease obligations:

1. Identify all *material* leases. At first pass, this appears to be a straight-forward process. However, some lease arrangements, as defined under the accounting standard, may not use the term "lease" in the agreement or other paperwork. Furthermore, not every agreement that is labeled a lease will meet the accounting standard's definition of a lease. The Town should perform the following:
 - a. Scan disbursement details to identify recurring payments in similar amounts to third parties. This may be indicative of a leasing arrangement.
 - b. Meet with departments that are most likely to lease equipment like technology, public works and police departments. Inquire about the existence of leases and correspond the results of these inquiries with the procedures in a.
 - c. Materiality will play a role in this analysis. A lease arrangement for a Town's postal meter will not have as great an impact as its lease of a fleet of police cruisers. The Town should work with its auditors to identify a dollar threshold for this analysis.
2. Gather the lease agreements/contracts for the Town's leases. Create a central repository for lease agreements either in paper or electronic format.
3. Create a database or spreadsheet of the key lease terms, which will include the lessor name, payment terms, description of the lease and renewal options, if any.

Once this data has been accumulated, work with your auditor to determine the best manner to calculate the lease figures.

If the Town is receiving regular, periodic payments from another party for that party's use of the Town's property, a similar process needs to be followed to account for the Town as a lessor.

A similar lease accounting standard was recently adopted for nongovernment accounting with public companies adopting this lease standard beginning in calendar year 2019. There are numerous publications on the difficulties public companies experienced in this implementation. One of the most common problems many public companies faced was not starting this process early enough. We encourage the Town to begin this process as early as possible.

Management Response – The Town will adopt this accounting standard in fiscal year 2021. The Town will begin the process of identifying and gathering all lease information and agreements and develop a central repository for lease information moving forward.

Withholdings and Agency Balances

The Town maintains several employee withholding and agency balances for which there is either no activity or the current activity zero's out each period and the ending balances are essentially carryover balances from years ago. We recommend that the Town complete an analysis of its withholding and agency balances to determine the correct necessary balances. Additionally, if agency balances such as performance bonds are determined to no longer be relevant, these funds should be returned to the depositor or to the general fund if an accounting error is determined to be the cause of the invalid balance.

Management Response – The Town Accountant's office has been closely analyzing all withholding accounts. As of January 2020, unsupported carryover balances have been eliminated. In terms of agency balances, the Town Accountant and Town Treasurer's offices are currently analyzing the validity and accuracy of all performance and road bonds; we expect this process to be completed by the end of fiscal year 2020.

Items We Continue to Highlight

1. **Elected Treasurer/Collector.** The Town continues to operate with an elected versus appointed Treasurer/Collector. Since the Town voted down a measure that would have changed this position from elected to appointed in May 2017, the Town's Treasurer/Collector position have been performed by four separate individuals. This turnover created a number of operational issues within the Town, for which the Town Administrator and the Town's accounting/finance team did a good job mitigating.

As a community with approximately 6,500 eligible voters, the talent pool available to the Town for this critical financial position is small. An unqualified party elected to serve in this position exposes the Town to unnecessary levels of risk.

Recently, several communities in the Town's general vicinity changed from elected to appointed Treasurer/Collectors including Franklin, Milford and North Attleborough. We continue to recommend that the Town change the means by which its Treasurer/Collector is selected.

Management's Response – Management of the Town acknowledges this risk. Article 30 of the 2019 Annual Town Meeting proposed an amendment to the Blackstone Home Rule Charter for consideration to convert the position of Treasurer/Collector from an elected office to an appointed position. The motion to approve Article 30 failed.

2. **Tax Title Balances.** As reported in our previous letter to management, the Town maintains a sizable tax title receivable balance, which approximated \$719,000 and \$740,000 at June 30, 2019 and 2018, respectively, particularly for the size of its residential property tax assessments. Excessive receivables are consumptions of the Town's available resources and may indicate a weakness in the Town's collections process.

The Town should analyze its tax title receivables and step up collection efforts on delinquent accounts, up to and including the sale of these receivables to a third-party collection firm.

Management's Response – The Collector's office has renewed efforts to collect delinquent taxes, which include pursuing foreclosure on long-outstanding tax titles and working with the Town's attorneys to follow-up on court documentation and proceedings. The Collector expects an increase in tax title collections in fiscal year 2020. Additionally, the Town continues to update its tax title policy.

3. **Inactive Carryforward Articles.** As reported in our previous letter to management, the Town carried forward a significant number of articles that were initiated by Town Meeting votes in 2015 and earlier periods. An analysis should be performed on these old articles to determine if these articles are relevant, and if not, corrective action should be taken to transfer these unnecessary reservations to the appropriate fund.

Management's Response – The Town Accountant has contacted all department heads to review carryforward Town Meeting articles applicable to their departments. Each department head will determine the relevant articles; all others will be transferred to the appropriate funds. Moving forward, this process will be followed up every year.

4. **General Fraud Presentation Measures.** In our initial letter to management dated January 19, 2017, we described the most common forms of fraud risk that towns of similar size and constitution as Blackstone most commonly face. Many of our recommendations have not been implemented due to personnel changes in the Town's accounting and treasury functions. 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.

Management's Response – The Town's financial team has discussed and acknowledges the importance of general fraud prevention measures. The finance team is currently in the process of updating the Town's financial policy manual, which will be voted and approved by the Board of Selectmen. This will better ensure consistency across all departments regarding cash management and all expenditures.

5. **Fair Value Accounting for Investments.** As reported in several previous letters to management, the Town continues to account for its investments managed by Bartholomew & Company on an amortized cost basis. Fair value measurement is required both under generally accepted accounting principles in the United States as well as by the Division of Local Services of the Massachusetts Department of Revenue.

By recording investments at fair value, depreciation of investment balances is more readily determined. For example, in fiscal year 2018, the Town's investments declined approximately \$173,000, primarily due to losses on its fixed income securities. The then Town Treasurer was unaware of the extent of this decline. 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. 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 continue to recommend that the Town record its investments at fair value based on the monthly reports provided by the investment manager.

Management's Response – The Town has considered the informational findings and plans to work with its auditors to address the accounting for fair value investment measurement. There is also consideration to include additional investment recordings that would focus on tracking only fair valuation, for the purposes of quicker identification of market declines.

6. **Indirect Costs.** Beginning in fiscal year 2019, the Town began assessing indirect costs to its sewer and water enterprises. The sewer and water enterprises contributed approximately \$39,000 and \$27,000, respectively, to the general fund for indirect costs. However, the indirect costs assessed pertain primarily to retirement assessments. Furthermore, many direct employee benefit costs like matching Medicare and unemployment insurance continue to be borne by the Town's general fund. Therefore, the assessed indirect costs are incomplete.

There are many shared services the Town provides these enterprises such as collections, technology and legal counsel. As these costs are completely assumed by the Town's general fund, the general fund is effectively subsidizing the sewer and water enterprises. As there are significant portions of the Town that are on well and septic systems, these taxpayers are negatively affected by this accounting treatment.

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.

Management's Response – For many years, the water and sewer enterprise funds were held responsible for the employee health benefits and the insurance costs for the enterprise employees. Beginning in fiscal year 2019, many additional costs were implemented into the enterprise fund's budgets. Although these indirect costs were added, the general fund is still subsidizing the water and sewer enterprise funds for many operational costs.

The Town will continue to work with the Water and Sewer Commission to assess the appropriate indirect costs as suggested by the Commonwealth of Massachusetts and this letter to management.

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