

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

**TOWN OF BLACKSTONE,
MASSACHUSETTS**

Management Letter
Year Ended June 30, 2020



TOWN OF BLACKSTONE, MASSACHUSETTS

MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2020

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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, 2020, 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 black ink that reads "Roselli, Clark & Associates". The signature is written in a cursive, flowing style.

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 27, 2020

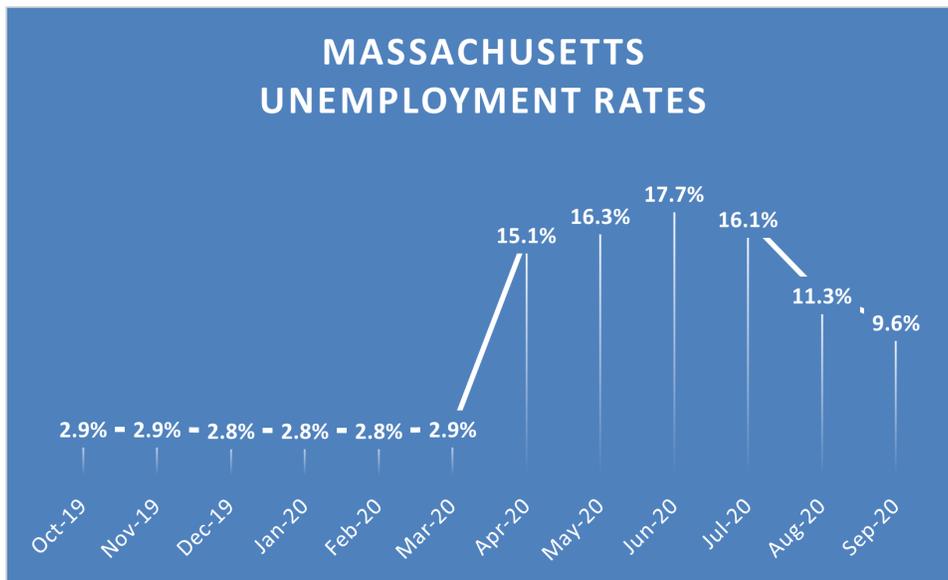
OVERVIEW

The COVID-19 outbreak shaped much of the discussion of the Town’s operations for the second half of fiscal year 2020 and its effects are expected to materially affect most of fiscal year 2021. The Commonwealth of Massachusetts provided budgetary guidance to the 351 cities and towns within the state in early fiscal year 2021 indicating that it expects to level-fund state aid for fiscal year 2021. However, at the time of this report, the Commonwealth had not yet finalized its fiscal year 2021 budget, which places a degree of uncertainty to this funding source.

The Town implemented a number of cost-saving initiatives in response to COVID-19 including the deferral, reduction and/or elimination of many discretionary spending. The Town expects that many revenue sources dependent on user fees and charges as well as certain excise taxes may be materially affected in fiscal year 2021.

The Town was awarded approximately \$822,000 in federal Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) funding. These funds are administered by the Commonwealth’s Executive Office for Administration and Finance. Under the CARES Act, these funds are currently limited in their use for COVID-19 necessary expenditures and may not be used to substitute lost revenue. The Town also received a number of other federal award related to COVID-19 for a variety of specific purposes.

Prior to the COVID-19 outbreak, the U.S. and local unemployment rates were at historic lows. Additionally, labor participation, wages and consumer confidence had been steadily trending higher. The following table illustrates the unemployment rates for Massachusetts as reported by the Commonwealth’s Executive Office of Labor and Workforce Development.



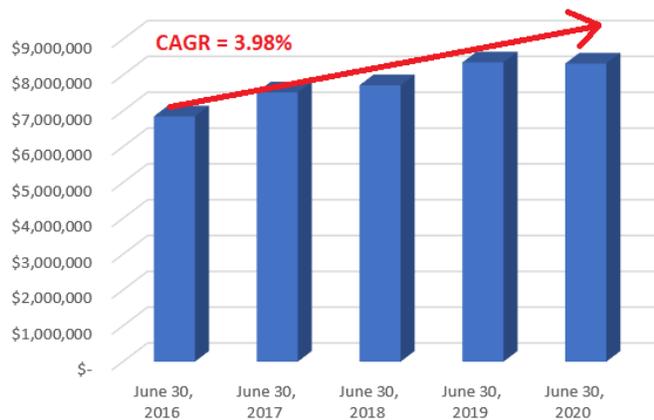
Employment in the food, leisure, travel and entertainment industries have been hit particularly hard and continue to struggle. Despite this steep increase in unemployment, residential real estate values continue to rise to historic highs.

The Town’s financial condition at June 30, 2020 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, 2020, the Town’s reserve ratio was approximately 27%, which was slightly better than the prior year’s ratio. 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 \$6.2 million at June 30, 2020 and its total fund balance was approximately \$8.3 million. The total fund balance in the Town’s general fund steadily growing for the past five 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.

General Fund Balances
Five-Year Trend



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 five fiscal years. At June 30, 2020, the fair value of the OPEB trust’s assets approached \$1,488,000. As a result of these significant contributions, the Town’s independent actuary estimates that, as of June 30, 2020, the Town’s future OPEB liability has been funded over 29%. 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.

Note: This Overview was updated to properly report the fair value of the OPEB trust’s assets at June 30, 2020. The previous Overview reported the fair value of the OPEB trust’s assets at June 30, 2019.

INFORMATIONAL ITEMS

New Lease Accounting Standard

The Town will be required to adopt a new accounting standard relative to leases beginning in fiscal year 2022 (deferred one year by the GASB). This new accounting standard will dramatically change the manner in which governments account and report lease transactions.

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.

The new accounting standard (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 soon.

Management's Response – Last year the Town began preliminary work to identify and gather all lease information. The Town will continue to develop a central repository for this information to prepare for the enactment of the new lease accounting standard for fiscal year 2022.

Network Security

As previously reported, ransomware continues to affect municipal organization in the United States. 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. 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.

To compound matters, remote access to a government's secure servers and networks has increased greatly as more and more municipal employees are working remotely due to the effects of COVID-19.

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 and requiring users to rotate passwords periodically.

We continue to recommend that the Town perform an in-depth risk assessment surrounding its network security for not only its critical financial functions, but also in areas such as police, fire and the school district; attacks within one of these remote departments can penetrate into the Town's critical financial systems. Additionally, the Town should strongly consider additional employee training in this area as an unacceptably high percentage of ransomware attacks are initiated from employees unknowingly activating the ransomware software.

Management's Response – The Town Administrator's Office along with the Town's information technology vendor continues to monitor and protect the Town against any virus, malware, and ransomware attacks.

Increased Frequency of Phishing Scams Throughout the Commonwealth

Phishing scams of municipalities throughout the nation have been increasing in frequency and success over the past several years. One of the more common and successful strategies involves fraudsters creating email accounts that appear to belong to legitimate vendors (or even a municipal employee) a community does business with. Over a series of email communications, the fraudster will coerce sensitive information from a community or initiate a change to payment method (i.e., new mailing address or direct deposit/wiring instructions).

We've provided some guidance to the Town's treasury personnel surrounding these issues, including how to spot some "red flags" that may reveal these scams via email communications. We also recommend some policy enhancements like requiring changes in direct deposit information to be completed by employees in person and changes to payment methods to vendors to be confirmed independently over the phone or in person if possible.

Finally, we cannot stress enough the need to have up-to-date network security tools and protocols and the need to regularly educate employees on these scams and threats.

Management's Response – The Town acknowledges the increase of phishing scams throughout the Commonwealth. With the guidance of the Town's external auditors, the Collector/Treasurer has enhanced policies requiring verbal and/or in-person confirmation for any employee changes.

Possible Single Audit Requirement

In fiscal year 2020, the Town was awarded approximately \$822,000 in CARES Act funding. As noted in the *Overview* section of this letter to management, these funds are currently limited in their use for COVID-19 necessary expenditures and may not be used to substitute lost revenue. It is possible that with these federal funds the Town will be subject to a separate compliance audit for its federal grants under the *Uniform Guidance* issued by the U.S. Office of Management and Budget (commonly referred to as a "single audit") in fiscal year 2021.

The Town should evaluate all expenditures it makes from these federal funds to ensure that these costs are allowable (reference can be made to the Commonwealth's website). Additionally, to comply with the Uniform Guidance, the Town will need to document its internal control processes over its internal controls over financial reporting for all federal awards. Additionally, the Town will need to perform and document its risk assessment related to these federal awards as well as have documented policies and procedures in place relative to its internal controls for the federal awards.

This is a lengthy process and the Town should not procrastinate in addressing these matters. We will gladly provide more detailed guidance to the Town's accounting and finance teams upon request.

Management's Response – After receiving correspondence from the Commonwealth regarding the eligible amount of \$822,000 in CARES Act funding, the Town Accountant worked closely with each department to review eligible expenses and submissions. The Town Accountant and Fire Chief, under the direction of the Town Administrator, worked closely to ensure a timely and thorough submission of FEMA and CARES Act funds.

The necessary internal controls are in place to ensure that all costs are allowable and comply with Uniform Guidance. The Town will continue to monitor all possible expenditures and complete all necessary reporting with the Commonwealth.

Waste, Fraud and Abuse

In July 2018, the Comptroller General of the United States issued revised *Government Auditing Standards*, which is commonly referred to as the “Yellow Book.” The new Yellow Book defines the concept of waste in a government as the act of using or expending resources carelessly, extravagantly, or to no purpose. Importantly, waste can include activities that do not include abuse and does not necessarily involve the violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions and inadequate oversight.

The COVID-19 outbreak and the related workforce shutdowns/slowdowns has provided municipalities and opportunity to reassess their current resources and discretionary spending. Costs and expenses previously thought to be required and/or necessary may now be reevaluated and may be considered to be wasteful. We recommend that the Town evaluate the effect its shutdowns/slowdowns have had on its operations and identify potential areas of wasteful spending and take the appropriate next actions.

Management’s Response – Due to the impact of the COVID-19 outbreak, the Town made significant budget cuts for fiscal year 2021 due to the unknown effects the virus may have on Town operations. As we begin the budget process for fiscal year 2022, the Town will need to reevaluate the effects the shutdowns/slowdowns had on each individual department and make any necessary changes. The Town will continue to monitor spending and identify areas needing improvement or reductions.

FINDINGS AND RECOMMENDATIONS

Accounting for Police Details

Due to the manner in which outside police details operate, most Massachusetts municipalities operate their police detail accounting in a deficit position as police officers are paid for outside police details nearly always prior to the receipt of funds from the third party requesting the detail. There is a high correlation between deficits in police detail agency funds and the amount of outstanding receivables due to the police department by third parties who have contracted the outside details. The deficit in police details at June 30, 2020 was approximately \$45,000, which was promptly eliminated through collections in the first two months of fiscal year 2021.

We determined that the Police Department uses manual processes to account for its police details. We recommend that the Police Department implement a more systematic process to account for police details such as an off-the shelf accounting application like QuickBooks. This would permit the Police Department to quickly evaluate past due amounts for collections.

Management's Response – The Town Accountant will work with the Police Chief to implement a more systematic process to account for police details. The Town acknowledges the recommendation of the Town's external auditor to purchase an application such as QuickBooks and begin to use the application as soon as possible.

Previously Reported Items We Continue to Highlight

1. **General Fraud Prevention 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. However, personnel in these functions have stabilized at this time. 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 continues to acknowledge the importance of general fraud prevention measures. The Finance Team has been working to update the financial policy manual and hopes to have it approved by the Board of Selectmen in fiscal year 2021. This policy will ensure consistency across all departments.

2. **Tax Title Balances.** As reported in previous letters to management, the Town maintains a sizable tax title receivable balance, which approximated \$812,000, \$719,000 and \$740,000 at June 30, 2020, 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 – Although COVID-19 temporarily delayed legal proceedings due to court closures, the Collector/Treasurer, under the guidance of the Town's legal counsel, continues to prioritize long outstanding tax title balances. In fiscal year 2020, the Collector/Treasurer renewed collection efforts on several properties that came back as invalid takings from prior years. The Collector/Treasurer continues to follow the Town's tax title policies under the direction of Town Counsel.

3. **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 \$43,000 and \$29,000, respectively, to the general fund for indirect costs in fiscal year 2020 (\$39,000 and \$27,000 in 2019). 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 – Over the past several years, the Town has worked to implement additional shared costs into the Water & Sewer Enterprise Funds. Although many costs have been included, the Town recognizes that 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 & Sewer Commission to assess the appropriate indirect costs as suggested by the Commonwealth of Massachusetts and this letter to management.

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