

**ROSELLI, CLARK & ASSOCIATES**  
Certified Public Accountants

**TOWN OF BLACKSTONE,  
MASSACHUSETTS**

Management Letter  
Year Ended June 30, 2021



**TOWN OF BLACKSTONE, MASSACHUSETTS**

MANAGEMENT LETTER  
YEAR ENDED JUNE 30, 2021

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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, 2021, 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 &amp; Associates". The signature is written in a cursive, flowing style.

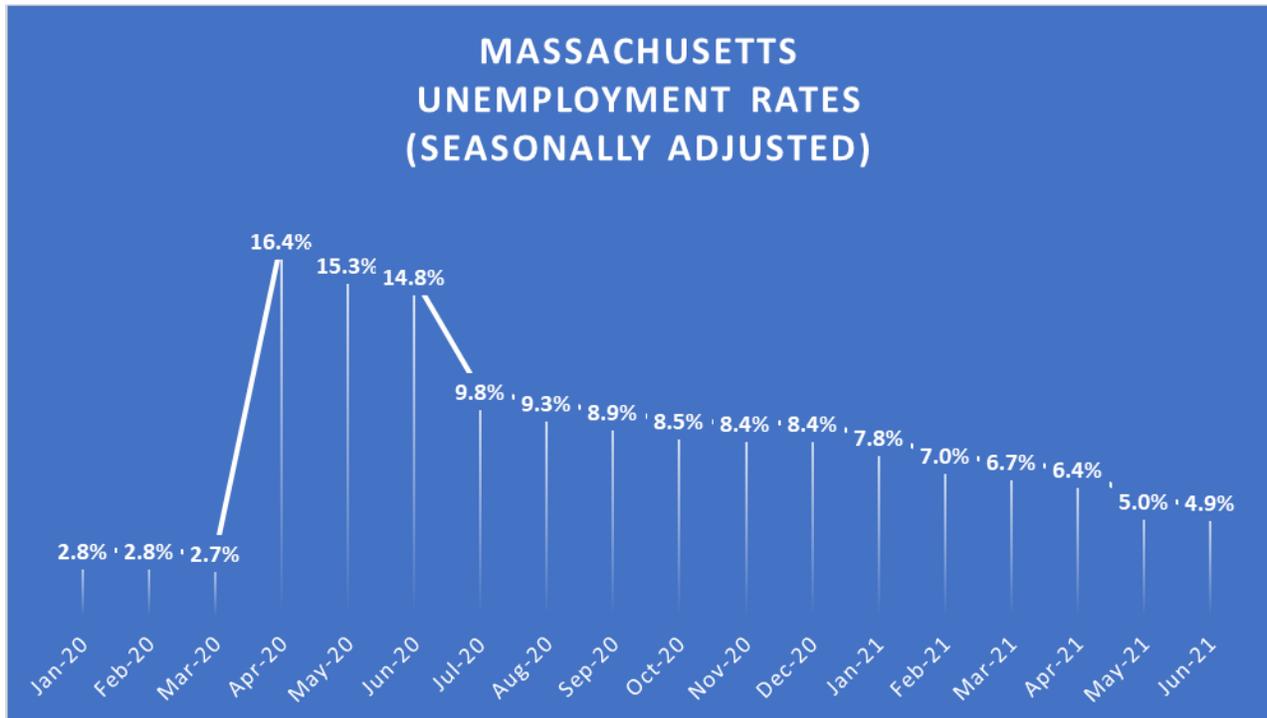
Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
November 3, 2021

## OVERVIEW

The COVID-19 outbreak continued to significantly affect nearly every aspect of the Town’s operations during fiscal year 2021. Massachusetts communities entered fiscal year 2021 with a number of uncertainties, not the least of which was the level of fiscal year 2021 state aid, employment and supply chain issues and the evolving workplace and community dynamics associated with vaccines, mask mandates, remote work/education and social distancing.

Federal assistance was offered in the form of the 2020 Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) funding, for which the Town was awarded up to approximately \$822,000. The CARES Act award was limited in its use; as a result, the Town expects to turn back a portion of this award before December 31, 2021. This federal assistance was supplemented by the 2021 American Rescue Plan Act (“ARPA”), for which the Town was awarded up to approximately \$2.8 million. There is more flexibility in the ARPA award, including the ability to replace lost public sector revenues. Currently, ARPA funds must be obligated by December 31, 2024 and expended by December 31, 2026.

While there has been significant improvement in the Massachusetts labor market, employment levels have not returned to their pre-pandemic levels, as illustrated in the unemployment table below.



The Town's financial condition at June 30, 2021 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, 2021, the Town's reserve ratio was approximately 29%, which was better than the prior year's ratio of 27%. 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 the ability 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 exceeded \$6.7 million at June 30, 2021 and its total fund balance approached \$9.5 million. The fund balance in the Town's general fund continues to steadily rise; over the past five years, the compound annual growth rate for the fund balance in the general fund was approximately 4.8%.

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, 2021, the fair value of the OPEB trust's assets exceeded \$2.2 million. As a result of these significant contributions and strong investment performance over the past five years, the Town's independent actuary estimates that the Town's future OPEB liability has been funded nearly 33% as of June 30, 2021. This funding percentage is significant in comparison to other Massachusetts municipalities of similar size and demographics as the Town of Blackstone.

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.

## **INFORMATIONAL ITEMS, FINDINGS AND RECOMMENDATIONS**

### ***Network Security***

As previously reported, ransomware continues to affect municipal organization in the United States. 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 have a role in the Town's 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 is currently enhancing its technology and security processes. Through a newly engaged third-party technology provider, the Town expects to complete a risk assessment surrounding its network security for not only its critical financial functions, but also in areas such as police, fire and library; attacks within one of these remote departments can penetrate into the Town's critical financial systems. Additionally, the Town is developing additional employee training in this area as it recognizes that an unacceptably high percentage of ransomware attacks are initiated from employees unknowingly activating the ransomware software.

Management's Response – The Town has contracted with a new vendor to manage technical services. They commenced their contract in November 2021. They are working to ensure backups are in place and will ensure that our systems run through the cloud. Over the course of the next several months, the new contractor will work diligently to ensure that security is addressed.

### ***Increased Frequency of Phishing Scams Throughout the Commonwealth***

As previously reported, 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 understand that the Town has implemented 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 has applied for a cybersecurity grant with the State of Massachusetts. This is a year-long cybersecurity program that involves extensive employee training and random monitored phishing campaigns to assist in educating all who use Town systems. If the

Town does not get the grant, the Town Administrator will find another funding source for the training as it is a top priority.

### ***General Fraud Prevention Measures***

Since our initial letter to management dated January 19, 2017, we've highlighted the most common forms of fraud risk that towns of similar size and constitution as Blackstone most commonly face and the need to adopt financial policies and procedures to address these risks. 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:

- Finalize the Town's financial operations policies and procedures manual;
- Developing periodic payroll trainings for departments; and
- Performing "spot audits" or business reviews for departments processing cash.

Management's Responses:

- ❖ The Town has contracted with a vendor to conduct a process audit. This audit will review all current processes within the Town departments and make recommendations on their findings. The Town will use the findings of the process audit to assist in updating the financial policies and procedures manual.
- ❖ After the audit presentation of the 2020 audit, the Town Accountant met with the Town's audit firm to review the payroll process and the concerns raised by the Selectmen. A payroll training was then set up with all department heads and employees who assist with payroll. The Town Accountant has been working closely with the Town Administrator on the payroll process and plans to set up regular training sessions with departments.
- ❖ The Town recognizes the importance of "spot audits" or business reviews for departments processing cash. The Town Administrator and Town Accountant are working to set up policies regarding cash receipts on a departmental basis. Once policies are in place, spot audits and reviews will be easier to manage.

### ***ARPA***

*General* – The Town was awarded up to approximately \$2.8 million in federal awards through the Coronavirus State and Local Fiscal Recovery Funds established by the American Rescue Plan Act of 2021 ("ARPA"). The Town received its first round of funding in late fiscal year 2021 (approximately \$486,000). ARPA funds can be deployed in a less restrictive manner than the CARES Act funding the Town received in fiscal years 2020 and 2021.

The use of ARPA funds will require periodic reporting to the United States Department of the Treasury ("U.S. Treasury"). Furthermore, it is possible that these funds may subject the Town to a separate compliance audit for its federal grants, which is commonly referred to as a single audit. We will work closely with the Town over the next several months to determine whether a single audit will be needed for fiscal year 2022 (or 2023) and provide guidance to the Town to assist it in preparing for this process.

*Revenue Replacement* – There are four statutory categories of eligible uses for ARPA funds:

1. To respond to the COVID-19 public health emergency or its negative economic impacts;
2. To provide premium pay to eligible municipal employees or by providing grants to eligible employers that have eligible employees who performed essential work;
3. For the provision of government services, to the extent of the reduction in revenue of a community due to the COVID-19 public health emergency; and
4. To make necessary investments in water, sewer and broadband infrastructure.

The third statutory category is the federal government's attempt to make whole communities that lost revenues due to government shutdowns and restrictions placed on it and its residents during the pandemic. Essentially, the calculated lost revenue can be used by a community in a near unlimited manner.

Many communities have performed high-level reviews of their revenues period to period and concluded that they were ineligible for this. However, the U.S. Treasury's guidance on lost revenues is such that there is an expectation of approximately 4.1% growth (6.2% in year one) in general revenues each year. Therefore, while a community may not have lost revenues on a gross dollar basis, its growth may have been less than this expectation, which would therefore result in a revenue reduction under the current guidance.

It's been our experience that once complete analyses are performed, many communities who believed they were ineligible for this use of ARPA funds are indeed eligible for this, particularly in the first year of the federal award. In fact, based on the timing of certain state grants such as Chapter 90 roadways and school building construction and community host agreements, some communities are calculating quite significant lost revenues. Conversely, the timing of these items have completely eliminated any calculated lost revenues in other communities.

The process that the Town needs to follow to calculate the replacement of lost revenues is very systematic and many communities perform this inhouse; there are consultants available to assist or complete this process too. As a nonentitlement unit (per U.S. Treasury classifications), the Town must complete these calculations before its annual reporting on or before April 30, 2022. We recommend that the Town complete this full analysis prior to this deadline.

Finally, this calculation will be performed annually throughout the course of the grant. Therefore, the Town may be eligible for additional revenue replacement in future years based on their calculations.

*Interest Income* – U.S. Treasury guidance on ARPA permits ARPA funds to be invested in interest-bearing accounts. Furthermore, U.S. Treasury guidance do not require that such interest be retained for the four eligible statutory categories described above. Therefore, the Town may assign interest earned on ARPA funds to its general fund.

*Management's Response* – The Town has several years to encumber and use the Coronavirus State and Local Fiscal Recovery Funds as outlined in the American Rescue Plan Act. The Town will continue to look at possible uses of ARPA funds to best utilize the federal award. Infrastructure is a major item that falls within the eligible use of these funds that the Town plans to expend.

### ***New Lease Accounting Standard***

As previously reported, the Town will be required to adopt a new accounting standard relative to leases beginning in fiscal year 2022. The Town should evaluate all *material* recurring transactions with outside vendors and/or customers to identify potential lease arrangements. Once identified, the Town should gather the pertinent lease agreements and create a database or spreadsheet of the key lease terms, which will include the lessor's name, payment terms, description of the lease and renewal options, if any.

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.

Management's Response – The Town was first made aware of the newly required accounting standard for leases back in FY20. The requirement would apply to the Town's fiscal year 2021 financial statements. This was then delayed to Fiscal Year 2022. The Town began the process of identifying and gathering all lease information and agreements. The Town Accountant developed a spreadsheet to track these leases to ensure all information would be available once the requirement is enforced.

### ***Inactive Capital Projects and Special Revenue Funds***

The Town maintains a number of capital projects and revolving funds (grants and special revenue accounts) that have not had any financial activity in several years. We recommend that the Town evaluate all inactive accounts and develop a strategy to use these funds or transfer unspent funds to the general fund, if appropriate.

Management's Response – The Town has numerous accounts that have little to no activity for several years. The Town Accountant has been working over the past couple of years to clean up these balances. The Town Accountant has cleaned up approximately \$155,000, which has been closed out to the General Fund's Free Cash. The Town Accountant will continue to work with the department heads to review the accounts that have not had any activity. This will include transferring unspent funds to the general fund or enterprise funds according.

### ***Improvements Since our Last Letter to Management***

We are pleased to report that the Town has taken actions to address the following previously reported matters:

- The Town Accountant and Treasurer have updated and periodically monitor vendor and payroll master files within MUNIS and the Harpers payroll system.
- The Town Accountant developed a revenue trend report to enable the Town to more easily identify unusual activity, irregularities and/or anomalies.
- The Town Accountant is currently working with the police department to more efficiently report and account for outside police details.
- Tax title receivables decreased in fiscal year 2021. A portion of this decrease was due to the Town foreclosing on a number of properties in tax title. The Town Treasurer/Collector is

working with outside tax title legal counsel to further reduce these balances by foreclosing on additional properties and subsequently auctioning the properties.

- Indirect costs for the sewer and water enterprises were updated in fiscal year 2020 and again in 2021 to include a number of additional costs incurred by the Town on behalf of these enterprises.

While an improvement, a number of significant shared costs such as the proportionate share of salaries and wages of accounting and administrative personnel continue to be borne entirely the by the Town's general fund. As significant portions of the Town do not have sewer and/or water service, this presents inequities within the Town's taxpayers and utility service customers. We continue to recommend that the Town identify all central shares services and costs that benefit the sewer and water enterprises and assess reasonable indirect costs based on guidance provided by the Commonwealth of Massachusetts regarding indirect costs for enterprise funds.

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