

**TOWN OF BLACKSTONE,  
MASSACHUSETTS**

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2017

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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, 2017, 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  
November 28, 2017

## OVERVIEW

Throughout fiscal year 2017, the local, state-wide and national economies continued to strengthen. Unemployment rates are low and property values are rising.

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 \$5.6 million at June 30, 2017. Included in this figure is approximately \$3.5 million in stabilization funds. This is an approximate \$668,000 increase from the prior year and was due primarily to revenues outpacing expenditures.

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, 2017, the unassigned fund balance in the general funds approximated 30% of total general fund expenditures. Furthermore, the total fund balance in the general fund approximated 40% 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 two fiscal years. At June 30, 2017, the fair value of the OPEB trust's assets approached \$571,000. As a result of these significant contributions, the Town's independent actuary estimates that, as of June 30, 2017, the Town's future OPEB liability has been funded over 15%. This funding percentage is significant in comparison to other Massachusetts municipalities, many of which have not yet established similar trusts. continues making contributions into its OPEB trust to assist it in meeting its future obligations.

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 to Town to enjoy very favorable terms in the municipal bond market.

Fiscal year 2017 marked our firm's second year of engagement with the Town. This letter to management is primarily an update of our initial letter, which was dated January 19, 2017. Due to personnel changes within the Town's accounting office, many of the recommendations made in our initial letter to management could not understandably be implemented. The Town should continue to evaluate these recommendations and determine the best course of action and timeframes to address these matters.

## INFORMATIONAL ITEMS

### *New Financial Statement Disclosures – OPEB Part 1*

The Town adopted Governmental Accounting Standards Board, or GASB, issued Statement No. 74, *Financial reporting for Postemployment Benefit Plans Other Than Pensions*, in fiscal year 2017. Other postemployment benefits is commonly referred to as “OPEB” and includes health and welfare plans and other similar benefits provided to Town retirees exclusive of pension benefits. The Town’s current policy is to contribute 50% of the cost of retiree health insurance costs, which comprises the vast majority of OPEB obligations.

The adoption of this accounting standard resulted in additional disclosures within the Town’s financial statements and the inclusion of the effects of retiree benefits paid and received (both from the Town and its retirees) in the Town’s fiduciary funds financial statements.

### *FY 2018 New Accounting Principle – OPEB Part 2*

As discussed in our previous letter to management, the Town will be required to report the full amount of its net OPEB *liability* in its government-wide and proprietary funds financial statements in fiscal year 2018. The Town currently reports a net OPEB *obligation* in its government-wide financial statements calculated under GASB 45.

The Town’s net OPEB *liability* is significantly greater than its net OPEB *obligation*. The Town’s independent actuary determined that the Town’s net OPEB *liability* at June 30, 2017 was \$3,168,581 versus a net OPEB *obligation* of \$2,082,816.

The Town’s independent actuary will remeasure the Town’s net OPEB liability at June 30, 2018. The Town will present this figure in its fiscal year 2018 affected financial statements. This will result in a further deterioration in the Town’s unrestricted net position.

The Town established an OPEB trust fund in fiscal year 2016 and has contributed \$500,000 into it from its inception to June 30, 2017. As it stands at June 30, 2017, the OPEB trust fund is approximately 15% funded.

The Town should continue to include OPEB in its long-term planning.

## FINDINGS AND RECOMMENDATIONS

### *Improvements Since Previous Letter to Management*

We identified a number of areas for improvement in our initial letter to management dated January 19, 2017. The Town took action on a number of these areas during fiscal year 2017 including:

1. The Town has established a process by which past due ambulance receivable balances are reviewed with its third-party billing company. As a result, the quality of the Town's ambulance receivables improved significantly year-over-year.
2. The Town Treasurer, Assessor and Accountant worked together to analyze and identify real property foreclosed by the Town and compiled a listing of such properties with associated foreclosed values. Previously, the Town's foreclosed properties value could not be substantiated.
3. The Town changes the billing frequency for its water and sewer enterprise to quarterly from semi-annually.

### *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. As we noted in our letter to management dated January 19, 2017, elected officials in this capacity have been steadily declining. In fact, the neighboring communities of Franklin and Milford recently approved the change from elections to appointments. Furthermore, the Division of Local Services of the Massachusetts Department of Revenue consistently recommends that this position be appointed versus elected.

A town's treasurer is perhaps the most important financial position within a municipality the size of the Town. With a population of approximately 9,000 residents, the talent pool capable of performing the critical financial duties of a treasurer is limited. If an unqualified party is elected into this position, the Town risks increasing its exposure to material errors in the processing of its transactions to an unacceptable level.

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

### ***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 function, 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.

### ***Timing of Cash Processing***

In connection with our auditing procedures in both 2017 and 2016, we determined that the Town incorrectly accounts for grant monies received shortly after year end. The Town recorded the receipt of approximately \$22,000 in July 2017 as cash at June 30, 2017; approximately \$81,000 in grant receipts were recorded in a similar fashion at June 30, 2016. These cutoffs error were significant to the Town and the audited financial statements were adjusted to correct for these errors.

While incorrect, this method of accounting is not atypical in Massachusetts municipalities. Many communities will record intergovernmental receipts received subsequent to June 30<sup>th</sup>, but in close proximity to June 30<sup>th</sup>, as cash receipts in the closed fiscal year. By doing so, these communities may avoid reporting negative fund balances in their grant funds.

There are mechanisms available to the Town that would permit it to properly record its accounting transactions including recording an account receivable without an associated deferred revenue, which is permissible. We once again recommend that the Town employ these means of accounting in all future accounting periods.

***Reporting Fair Value of Investments***

In connection with our auditing procedures in both 2017 and 2016, we determined that the Town reported the carrying value of its stabilization and capital investment funds on an amortized cost basis versus at their fair value. As a result, the underlying accounting records understated these investment accounts by approximately \$60,000 at June 30, 2017 and \$118,000 at June 30, 2016.

While incorrect, this method of accounting is not atypical in Massachusetts municipalities. However, several years ago, the Massachusetts Department of Revenue included as part of its year-end closing procedures a requirement that investments should be recorded at their fair value.

We once again recommend that the Town Treasurer and Town Accountant record the appropriate increase in these accounts, which are the result of unrealized gains, in the Town’s cash book and its underlying accounting records.

***Indirect Costs – Water and Sewer Enterprise***

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. The following significant costs are being incurred by the water and sewer operations, but are not being assessed to these operations:

- Regional pension system’s retirement assessment;
- Unemployment insurance and Town’s matching share of Medicare insurance;
- Shared services for information technology, legal and audit; and
- Shared personnel services for Town Administrator, Town Accountant and Town Treasurer/Collector.

As a result, the Town’s tax payers are absorbing these costs in their property taxes as opposed to the water and sewer users in their usage rates. Furthermore, as a result of the current accounting, the Town is unable to accurately determine the exact costs necessary to operate and administer its water and sewer enterprises.

The Commonwealth of Massachusetts has guidance on indirect costs for enterprise funds. We once again recommend that the Town evaluate the impact that assessing reasonable indirect costs would have on these operations and their users and begin the process of assessing indirect costs in fiscal year 2018 (2019 at the latest).

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