

**TOWN OF MILLIS, MASSACHUSETTS**

**Management Letter**

**For the Year Ended June 30, 2012**

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To the Board of Selectmen  
Town of Millis, Massachusetts

In planning and performing our audit of the financial statements of the Town of Millis, Massachusetts, as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Millis' internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 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 deficiencies, significant deficiencies, or material weaknesses. In addition, because of the inherent limitation in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

During our audit we became aware of certain matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

*Additional Offices:*

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

The Town's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Board of Selectmen, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

*Melanson, Heath + Company P.C.*  
January 10, 2013

## **PRIOR YEAR RECOMMENDATIONS:**

### 1. Improve and Automate School Department Compensated Absence Accounting

#### Prior Year Issue:

In the prior year, we recommended the School Department use the Town's payroll software, or another proper automated accounting system, to track its employees' sick and vacation accruals.

#### Current Year Status:

This recommendation was not resolved in the current year.

#### Further Action Needed:

We continue to recommend that the School Department use a proper automated accounting system to track its employees' sick and vacation accruals.

#### Town's Response:

The School Department has recently experienced turnover in the Business Department and hired a new Business Manager who will oversee the implementation of auditor's recommendations. In an effort to address understaffing, the School Department expects to hire a dedicated Payroll Specialist who will work with the day-to-day operations. The process of converting the sick and vacation accruals from a manual system to an electronic process has begun.

### 2. Develop a More Formal Risk Assessment Process

#### Prior Year Issue:

In the prior year, we recommended the Town implement a more formal risk assessment process that included written identification of areas where potential fraud or material misstatements to the basic financial statements may occur and what monitoring activities will be implemented.

#### Current Year Status:

In the current year, the Town continued to informally perform its own risk assessment for possible fraud or material misstatements through various

discussion, policies and procedures, and regular reviews of trends in the financial statements.

Further Action Needed:

We continue to recommend that the Town implement a more formal documented risk assessment process.

Town's Response:

The Town is currently gathering information and is working on preparing a formal risk policy to review with the auditors.

**CURRENT YEAR RECOMMENDATIONS:**

3. Follow Through on Student Activity Fund Audit Recommendations

During 2011, the School Department had an external review of the student activity funds completed and the report included numerous recommendations to improve controls including:

- Prepare student activity fund policy and procedure manual
- Improve controls over disbursements and receipts
- Reconcile account balances
- Improve segregation of duties
- Review appropriateness of student activity accounts

We recommend that the Town and School Department implement the recommendations outlined in the student activity fund audit report.

Town's Response:

The School Department has met with staff involved and discussed new procedures. Administration has also developed a preliminary student fund policy and procedure manual and has received feedback from the independent reviewer regarding suggested improvements to the document. Once the manual is finalized, additional meetings will be held with the staff involved to ensure consistency and compliance among users. The use of standardized forms and more frequent communication with the principals and clerical staff

will address the above recommendations. While these recommendations will provide additional levels of confidence in the handling of student activity transactions, it is important to note that there has been proper accounting of these funds.

4. Prepare to Implement GASB 68

Beginning in fiscal year 2015, the Town will be required to implement the Governmental Accounting Standards Board (GASB) Statement 68 – *Accounting and Financial Reporting for Pensions* resulting in the reporting of the unfunded pension liability on the Town’s Statement of Net Assets, including enterprise funds. It is widely expected that the implementation of this accounting standard will have a material impact on the Town’s basic financial statements.

We recommend the Town begin planning for the implementation of GASB 68, which includes gaining an understanding of the new requirements, educating applicable financial statement users, and ensuring that the Town’s portions of unfunded retirement system’s unfunded liability is audited and available for inclusion in the financial statements. We will be monitoring best practices for implementing this standard across the state and will provide guidance in the coming year.

Town’s Response:

The Town will work on preparing and training the proper personnel regarding GASB Statement 68 in preparation for the FY 2015 requirement Accounting & Financial Reporting for Pensions.