

TOWN OF MILLIS, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2010

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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, 2010, 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 several other 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 response to our comments and suggestions has 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.

Andover, Massachusetts

February 1, 2011

PRIOR YEAR RECOMMENDATIONS:

1. Improve Compensated Absence Accounting

Prior Year Issue:

In the prior year, we recommended the Town centralize the accounting for employee compensated absences.

Current Year Status:

We understand the Town has taken steps to improve accounting for employee compensated absences in fiscal 2010. As of June 30, 2010, the Town centralized compensating absence accounting for all departments except Fire and School.

Further Action Needed:

We continue to recommend the Town centralize the accounting for employee compensated absences for all departments. Centralizing and fully automating this process will increase efficiency and provide the Town with improved controls over the payment of compensated absences.

Town's Response:

The Fire Department compensated absences are centrally tracked in the Accounting Office using the Munis payroll system.

The Town has no jurisdiction over the management of the school staff, and therefore is not able to institute controls over the payment of compensated time for school employees. The School Department tracks their compensated absences on the school level.

2. Post Revenue Budget to the General Ledger

Prior Year Issue:

In the prior year, we recommended the Town incorporate budgeted revenue amounts in the computer system in order to utilize the automatic variance analysis function.

Current Year Status:

The Town continues to monitor actual receipts against estimated receipts for the general, water, and sewer funds by means of the Excel spreadsheets.

Further Action Needed:

We continue to recommend the Town incorporate budgeted revenue amounts in the computer system in order to utilize the automatic variance analysis function. This will provide for a more efficient process to analyze monthly revenues and to identify unexpected trends and variances.

Town's Response:

Although revenues are currently analyzed and reviewed monthly using Excel reports, the revenue budget for FY11 is now posted and incorporated in the Munis Financial system.

CURRENT YEAR RECOMMENDATIONS:

3. Improve Departmental Policies and Procedures

The Town currently has a policy and procedure regarding the handling of departmental receipts last updated in 2005. However, in our testing of departmental receipts, we noted the following deficiencies:

Recreation Department Cash Receipts

- Checks were not immediately stamped "for deposit only", but only done when preparing the turnover.
- Receipts were not turned over for some programs in an attempt to avoid issuing refund checks for programs that did not have enough enrollments.
- Department appeared to be unaware of the Town's formal departmental receipt policy.
- Pre-numbered receipts were not provided to customers unless requested.

Board of Health Cash Receipts

- Departmental receipt logs were only maintained at time of turnover preparation and not at time of actual receipt.
- The Department did not reconcile departmental logs and records to the general ledger.
- The Department was unaware of the Town's formal departmental receipt policy.
- Pre-numbered receipts were not provided to customers unless requested

Town Clerk Cash Receipts

- Checks were not immediately stamped "for deposit only", but only done when preparing the turnover.
- Pre-numbered receipts were not provided to customers unless requested

We recommend that the Town review current departmental receipt policies and procedures and distribute to every department. We further recommend that the Finance Director perform periodic internal audits to ensure each department is in full compliance.

Town's Response:

The Finance Director will meet with the noted departments to review the current town receipt policy and will redistribute and review the policy with all departments.

4. Prepare to Implement GASB 54

Beginning in fiscal year 2011, the Town will need to implement a new accounting standard, called the *Governmental Accounting Standards Board (GASB) Statement 54 - Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes new criteria of special revenue funds, and new classifications of governmental fund balances. Certain Town-established funds, such as stabilization, will no longer be reported separately, but instead be reported in the general fund for the year end audited financial statements. In addition, the classifications of reserved, designated and unreserved fund

balances will be replaced with new classifications of nonspendable, restricted, committed, assigned, and unassigned fund balances.

We recommend the Town begin planning for the implementation of GASB 54, which includes gaining an understanding of the new requirements and training to internal users of the audited financial statements. We could provide the Town with training resources on GASB 54, if requested.

Town's Response:

The Finance Director will review any material provided regarding GASB 54.