

TOWN OF MILLIS, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2011

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| INTRODUCTORY LETTER | 1 |
| <u>PRIOR YEAR RECOMMENDATION:</u> | |
| 1. Improve Departmental Policies and Procedures | 3 |
| <u>CURRENT YEAR RECOMMENDATIONS:</u> | |
| 2. Improve and Automate School Department Compensated Absence Accounting | 4 |
| 3. Develop a More Formal Risk Assessment Process | 4 |



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 107

Andover, MA 01810-1096

(978) 749-0005 • Fax (978) 749-0006

www.melansonheath.com

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, 2011, 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 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.

Andover, Massachusetts

February 16, 2012

PRIOR YEAR RECOMMENDATION:

1. Improve Departmental Policies and Procedures

Prior Year Issue:

In the prior year, we recommended the Town review current departmental receipt policies and procedures, and that the Finance Director perform periodic internal audits to ensure each department is in full compliance.

Current Year Status:

In the current year, we noted improvement over departmental receipt processing. However, some of the same departmental receipt procedure deficiencies that were noted in the prior year were noted again and are listed below:

Building Department:

- The same individuals collecting receipts also prepare the cash turnover forms and maintain departmental records. The segregation of duties is lacking due to limited staffing within the department.

Board of Selectmen:

- The same individual collecting receipts also prepares the cash turnover form and maintains departmental records. The segregation of duties should be improved, and oversight should be documented.
- Pre-numbered receipts were not provided to customers.
- Checks were not immediately stamped “for deposit only”.

Further Action Needed:

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

Town's Response:

The Finance Director has met with various departments to perform internal audits in FY11. Additionally, staffing levels in several departments is a problem but, at this time, unavoidable which prevents a segregation of duties. While fraud is not completely avoidable, the Town has implemented policies

to avoid the opportunity for fraud. For example, no department is allowed to accept cash of \$ 10 or more and turnovers must be signed by two people prior to being accepted by the Treasurer/Collector's office. Also, receipt logs are maintained and receipts provided. The Finance Director has reminded the noted department about providing pre-numbered receipts and stamping all checks "for deposit only" immediately upon receipt.

CURRENT YEAR RECOMMENDATIONS:

2. Improve and Automate School Department Compensated Absence Accounting

The School Department does not adequately track sick and vacation accruals. Although, the Town's payroll software is capable of tracking the accruals, the School Department tracks their employees' accruals using manual handwritten cards, with no running available balance indicated. This decentralized and non-automated process increases the risk of errors occurring and going unnoticed.

We recommend the School Department use the Town's payroll software or another proper automated accounting system to track its employees' sick and vacation accruals.

Town's Response:

The School Department is aware of the issue and has entered into discussions with RDA (the software that the school uses). During the summer, it is the expectation of the school to begin the implementation of a new software package that will track among other things attendance. This software will also satisfy the new requirements of the DESE with regards to EPIMs and SIFS data requirements.

3. Develop a More Formal Risk Assessment Process

The Town informally performs 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. Risk assessment is

a management function designed to identify where an organization may be vulnerable to errors and/or irregularities. A complete risk assessment process involves a written description of risk areas identified by those charged with governance (management and elected officials) and a description of how the organization intends on responding to the risks. As part of this process, the Town should pay particular attention to its assessment of the Control Environment; specifically, the risks associated with related parties and potential conflicts of interest. Specific monitoring activities to address these risks should be documented and implemented as well.

We recommend that the Town implement a more formal risk assessment process that includes written identification of areas where potential fraud or material misstatements to the basic financial statements may occur and what monitoring activities will be implemented. Regular department head meetings could be used as a starting point for such risk assessment discussion.

Town's Response:

The Finance Director will work with the auditors to formalize this process.