

Town of Millis, Massachusetts
Management Letter
For the Year Ended June 30, 2014

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
 <u>STATUS OF PRIOR YEAR RECOMMENDATIONS:</u>	
1. Develop a More Formal Risk Assessment Process	3
2. Follow Through on Student Activity Fund Audit Recommendations	3
3. Formalize a Fund Balance Policy	4
 <u>CURRENT YEAR RECOMMENDATION:</u>	
4. Prepare to Implement GASB 68	5

Additional Offices:

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

To the Board of Selectmen
Town of Millis, Massachusetts

In planning and performing our audit of the basic financial statements of the Town of Millis, Massachusetts as of and for the year ended June 30, 2014, 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 our auditing procedures 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 over financial reporting.

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.

During our audit, we became aware of 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.

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.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance, including those overseeing the financial reporting process, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Melanson Heath

April 13, 2015

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. 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 includes written identification of areas where potential fraud or material misstatements to the basic financial statements may occur and what monitoring activities would 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. Particular attention should be focused on the payroll process as well as IT controls.

Town's Response:

The Town will seek assistance from the auditing firm to develop this written policy.

2. Follow Through on Student Activity Fund Audit Recommendations

Prior Year Issue:

In the prior year, we recommended that the Town and School Department implement the recommendations outlined in the previously issued Student Activity Fund audit report.

Current Year Status:

During fiscal year 2014, the School Department started the process of implementing the prior year's external review recommendations.

Further Action Needed:

We continue to recommend that the Town and School Department continue their work of implementing and strengthening controls over the Student Activity Funds. The Town and School Department should pay particular attention to the newly implemented DESE Agreed Upon Procedures and Audit Guidelines for Student Activity Funds.

Town's Response:

The Town reconciles with the school's Student Activity savings account on a monthly basis. The Town only reimburses the school Student Activity checking account when proper documentation (receipts or cancelled checks) are submitted. The Town is not involved with the reporting, tracking and reconciling the school's Student Activity Checking account. That is done internally with the school.

School's Response:

The School Department continues to follow through with previous year's external review recommendations and has noted that the Department of Elementary and Secondary Education released new audit guidelines after the close of the fiscal year. Upon receipt of FY14 external review recommendations from Melanson Heath, the School Department will follow through accordingly.

3. Formalize a Fund Balance Policy

Prior Year Issue:

In the prior year, we recommended that the Town formalize a fund balance policy to provide guidance over the following areas:

- Establish desired level of unassigned fund balance.
- Establish desired level of unrestricted fund balances.
- Specify prioritization of fund balance amounts when multiple sources are used for one project, grant or activity (i.e., general fund monies are appropriated to partially fund a capital project, or a grant match).
- Specify the body of official authorized to make assignments of fund balance and define time constraints on each assignment.
- Distinguish between encumbrances (commitments related to contracts not yet formed and orders not yet filled) and other assignments (previously called designations).
- Define any approval process for modifying existing assignments.

A formal (written) fund balance policy would provide guidance in maintaining a required or desired level of unassigned fund balance and set policy over other types of governmental fund balances.

Current Year Status:

This recommendation has not been implemented.

Further Action Needed:

We continue to recommend that the Town formalize a fund balance policy to provide guidance over the above-noted areas.

Town's Response:

The Town received a sample policy from the auditing firm in February 2015 and will work with them to formalize this policy.

CURRENT YEAR RECOMMENDATION:

4. Prepare to Implement GASB 68

Beginning in fiscal year 2015, the Town is required to implement Governmental Accounting Standards Board (GASB) Statement 68 – *Accounting and Financial Reporting for Pensions*. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the actuarially accrued liability of the Norfolk County Retirement System.

We recommend the Town plan for the implementation of GASB 68, which includes gaining an understanding of the new requirements, educating financial statement users, and ensuring that the Town's applicable portions of the retirement systems unfunded liability is audited and available for inclusion in the financial statements.

Town's Response:

The Town has started the training process and will continue to work with the auditors to implement this statement.