

**TOWN OF MILLBURY, MASSACHUSETTS**

**Management Report**

**For the Year Ended June 30, 2006**

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INTRODUCTORY LETTER</b>	1
<b>INTRODUCTION</b>	3
<b><u>FOLLOW-UP ON PRIOR YEAR RECOMMENDATIONS:</u></b>	
1. Formalize Controls over Departmental Receipts and Implement Internal Audits	3
2. Analyze Withholding Accounts	4
3. Improve Timeliness of State Chapter 90 (Highway) Reimbursement Requests	5
4. Improve Compensated Absences Accounting	5
5. Monitor Activity in Police Detail Revolving Account	6
6. Establish Infrastructure Capital Assets	6
7. Periodically Discuss Fraud Prevention with Employees	7
8. Prepare for Implementation of GASB Statement 45	7
<b><u>CURRENT YEAR RECOMMENDATION:</u></b>	
9. Obtain Capital Assets Software and Formalize Capital Asset Policies and Procedures	8

To the Selectboard  
Town of Millbury  
Millbury, Massachusetts

We have audited the financial statements of the Town of Millbury, Massachusetts, as of and for the year ended June 30, 2006, and have issued our report thereon dated May 25, 2007. As part of our audit, we made a study and evaluation of the Town's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluations are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements.

The management of the Town of Millbury, Massachusetts is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by them are required to assess the expected benefits and related costs of control procedures. The objectives of such a system are to provide reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with required authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may still occur without being detected. Also, projection of any evaluation of the system to future periods is subject to the risks that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was not designed for the purpose of expressing an opinion on the internal accounting control and would not necessarily disclose all weaknesses in the system. However, as a result of our study and evaluation, and in an effort to be of assistance to the Town, we are submitting for your consideration comments and recommendations intended to improve operations and internal accounting control.

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

Andover Massachusetts  
May 25, 2007

## **INTRODUCTION**

We would like to commend the Town for implementing certain prior year recommendations during fiscal year 2006. The first part of this report repeats those recommendations we feel are still worthy of consideration.

## **FOLLOW-UP ON PRIOR YEAR RECOMMENDATIONS:**

### **1. Formalize Controls over Departmental Receipts and Implement Internal Audits**

#### Prior Year Issue:

In prior years, we recommended that the Town establish formal policies and procedures for handling departmental receipts. Issues to be considered included:

- maintaining a pre-numbered receipt book
- maintaining a log of receipts
- use of preprinted/coded departmental turnover forms
- maintaining an audit trail over remittances to the Treasurer
- establishing policies for frequency of remittances
- coding of account numbers on turnover sheets
- documenting a breakdown of deposits by cash and checks
- establishing security of cash on hand during operating hours and overnight

#### Current Year Status:

The recommendation has not been implemented.

#### Further Action Needed:

We continue to recommend that the Town implement these policies and procedures as soon as possible. The implementation of formal uniform policies and procedures will provide increased controls over departmental receipts. We further recommend that the Town establish a schedule for periodic internal

audits of Town's departmental accounting records. Specific internal audit steps should include, but not limited to:

- Cash receipt monitoring
- Budget appropriation to actual monitoring
- Grant activity allowability
- Chapter 30B compliance
- Compliance with applicable Town policies and procedures
- Trust Fund activity allowability
- Petty cash policies and procedures

This will result in improved oversight and should reduce the risk of errors or irregularities occurring and going undetected.

## **2. Analyze Withholding Accounts**

### Prior Year Issue:

In prior years, we recommended that the Town correct the unidentified debit and credit balances in the general ledger payroll withholding accounts and monitor the activity in these accounts monthly.

### Current Year Status:

This recommendation has not been implemented.

### Further Action Needed:

We continue to recommend that the Town correct the general ledger withholding accounts and monitor the activity in these accounts monthly.

**3. Improve Timeliness of State Chapter 90 (Highway) Reimbursement Requests**

Prior Year Issue:

In prior years, we recommended that the Town's Public Works Director and Finance Department develop procedures to ensure requests for reimbursements of State Chapter 90 funds are filed in a timely manner.

Current Year Status:

Again in 2006, requests for reimbursements were not filed in a timely manner.

Further Action Needed:

We continue to recommend that the Town develop and implement procedures for submitting reimbursement requests. This will maximize the Town's investment income and improve cash reserves available for working capital.

**4. Improve Compensated Absences Accounting**

Prior Year Issue:

In prior years, we recommended that the Town centralize and automate the accounting for employee compensated absences.

Current Year Status:

This recommendation has not been implemented.

Further Action Needed:

We continue to recommend that the Town centralize the accounting for employee compensated absences. Centralizing and fully automating this process would increase the efficiency of the entire process, would provide the Finance Department with improved controls, and would leave a better audit trail over the reporting of compensated absences.

**5. Monitor Activity in Police Detail Revolving Account**

Prior Year Issue:

In the prior year, we recommended the Town monitor all activity flowing through the police detail revolving account to assure postings are accurate and up to date.

Current Year Status:

This recommendation has not been implemented. The police detail revolving account experienced a loss for the year of approximately \$ 33,000, resulting in a June 30, 2006 deficit of approximately \$ 90,000.

Further Action Needed:

We continue to recommend the Town monitor all activity flowing through the police detail revolving account to assure postings are accurate and up to date. The cash deficit balance should be compared with receivable records to determine whether a true fund deficit exists. If a true deficit exists, an analysis should be performed to identify the cause and determine a corrective action plan.

**6. Establish Infrastructure Fixed Assets**

Prior Year Issue:

In the prior year, we recommended that the Town establish an inventory of all general infrastructure fixed assets for inclusion in the June 30, 2007 financial statements, as required by the Governmental Accounting Standards Board Statement 34.

Current Year Status:

The Town has not begun to compile information relating to infrastructure fixed assets (streets and sidewalks), that are required to be reported in fiscal year 2007.



Further Action Needed:

We continue to recommend that the Town compile infrastructure asset information.

**7. Periodically Discuss Fraud Prevention with Employees**

Prior Year Issue:

In the prior year, we recommended the Town periodically discuss fraud prevention with all employees, and the steps that should be taken when fraud is detected or suspected. This will help maintain an ethical business environment, and ensure that employees are aware of their responsibilities to report abuses to the appropriate parties.

Current Year Status:

This recommendation has not been implemented.

Further Action Needed:

We continue to recommend that the Town periodically discuss fraud prevention with all employees, and the steps that should be taken when fraud is detected or suspected.

**8. Continue to Prepare for Implementation of GASB Statement 45**

Prior Year Issue:

In the prior year, we recommended that the Town begin the process of implementing GASB Statement 45 by budgeting and contracting for an actuarial valuation. This will assure that the Town will be prepared to meet the upcoming reporting requirements of GASB Statement 45 by fiscal year 2009.

Current Year Status:

This recommendation has not been implemented.

Further Action Needed:

We continue to recommend the Town begin the process of implementing GASB Statement 45 in order to be in compliance by fiscal year 2009.

**CURRENT YEAR RECOMMENDATION:**

**9. Obtain Capital Assets Software and Formalize Capital Asset Policies and Procedures**

The Town maintains all records of capital assets on an electronic spreadsheet. As a result, the process required to maintain the data is complicated and requires significant revisions to formulas, to accurately reflect beginning of year and year-end balances. Additionally, the use of spreadsheets does not provide an adequate audit trail over changes to the records. We also noted that the Town does not have a written capitalization policy.

We recommend that the Town purchase and implement software to maintain the historical cost and depreciation of all capital assets, and develop a written capitalization policy. Implementation of this recommendation will streamline and provide better internal control over existing assets, year-end closing, as well as all future acquisitions and calculations of annual depreciation.