

TOWN OF MILLBURY, MASSACHUSETTS

**Independent Auditors' Reports Pursuant
to Governmental Auditing Standards
and The Single Audit Act Amendments of 1996**

For the Year Ended June 30, 2007

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 112
Andover, MA 01810-1096
(978) 749-0005 • Fax (978) 749-0006
www.melansonheath.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Selectmen
Town of Millbury, Massachusetts

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Millbury, Massachusetts, as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated April 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with

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generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiencies described in items 07-1 through 07-4 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Town in a separate letter dated April 8, 2008.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Selectmen, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Melanson, Heath + Company P.C.

Andover, Massachusetts
April 8, 2008



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Selectmen
Town of Millbury, Massachusetts

Compliance

We have audited the compliance of the Town of Millbury, Massachusetts with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

As described in item 07-5 in the accompanying schedule of findings and questioned costs, the Town did not comply with requirements regarding time and effort that are applicable to its Title I and Special Education Cluster grants. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to that program.

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In our opinion, except for the noncompliance described in the preceding paragraph, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs of the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A *control deficiency* in the Town's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the Town's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

Schedule of Expenditure of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Millbury as of and for the year ended June 30, 2007, and have issued our report thereon dated April 8, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of

the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Selectmen, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Melanson, Heath + Company P.C.

Andover, Massachusetts
April 8, 2008

TOWN OF MILLBURY, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

<u>Program Title</u>	<u>Federal Catalogue Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture		
Passed Through State Department of Nutrition		
School Lunch Program	10.555	\$ <u>159,778</u>
Total Department of Agriculture		159,778
U.S. Department of Education		
Passed Through State Department of Education		
Title I	84.010	190,902
Title VIB -SPED PL 94-142	84.027	420,733
Special Assistant and Mentoring	84.027	3,000
Program Improvement	84.027	17,165
Drug Free Schools	84.186	8,811
Title V Part A	84.298	2,873
Enhanced Technology	84.318	2,719
Title II Improving Teacher Quality	84.367	55,067
Passed Through State Department of Early Childhood and Care		
Project Early Childhood	84.173	<u>22,456</u>
Total Department of Education		723,726
U.S. Department of Justice		
School Resource Officers	16.710	43,125
Community Policing Grant	16.710	<u>17,373</u>
Total Department of Justice		60,498
U.S. Department of Homeland Security		
Passed Through Commonwealth of Massachusetts Emergency		
Management Agency		
Emergency Management - Public Works	97.036	<u>38,320</u>
Total Department of Homeland Security		<u>38,320</u>
Total Federal Expenditures		\$ <u><u>982,322</u></u>

See Independent Auditors' Report on Compliance with OMB Circular A-133.
This schedule was prepared on a modified accrual basis.

TOWN OF MILLBURY, MASSACHUSETTS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiencies identified that are not considered to be material weakness(es)?

☐ yes ☒ no

☒ yes ☐ no

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiencies identified that are not considered to be material weakness(es)?

☐ yes ☒ no

☐ yes ☒ no

Type of auditors' report issued on compliance for major programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☒ yes ☐ no

Identification of major programs:

CFDA Number(s)

84.010
84.027/84.173

Name of Federal Program or Cluster

Title I
Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding

Finding/Noncompliance

07-1

Monitor Activity in Police Detail Revolving Account (Significant Deficiency)

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 \$ 27,000, resulting in a June 30, 2007 deficit of approximately \$ 117,000.

Further Action Needed:

We continue to recommend the Town monitor all activity flowing through the police detail revolving account and compare the deficit balance with receivable records to determine whether a true deficit exists.

07-2

Improve Financial Reporting and Accounting System (Significant Deficiency)

In order for the Town's financial statements to be materially fairly stated in accordance with *Generally Accepted Accounting Principles*, several audit entries were required. The following is a list of entries made and/or issues encountered during the audit:

- General Fund Balance accounts needed to be analyzed in detail, and entries were required to record and reconcile operating transfers in and out.
- Non-general Fund Balance accounts needed to be analyzed in detail and entries were required to report revenue and expenditure activity.
- Capital Asset records were revised on several occasions and required material adjustments.
- Year-end encumbrances (the carry forward of available appropriation) were recorded as expenditures rather than a reservation of fund balances. Similarly, the expenditures of 2006 encumbrances were recorded as direct reductions to fund balance rather than expenditures.

(continued)

(continued)

Finding #

Finding/Noncompliance

Recommendation:

Instead of relying on the year end audit to adjust balance sheet and revenues and expenditure accounts, we recommend that the Town monitor its balance sheet on a monthly basis and develop year end closing procedures in order to improve financial reporting.

07-3

**Consider Implementing Internal Control Improvements
(Significant Deficiency)**

In accordance with a new generally accepted audit standard (SAS 112), which is effective for all fiscal year 2007 audits, independent auditors must now report issues (called "significant deficiencies") to the governing body. The definition of this term is included on Page 1.

SAS 112 specifically requires that certain situations, if present in the municipality, must be reported as a significant deficiency. Although these conditions may not be new to the municipality, and may be very common practices for Massachusetts municipalities, they must now be reported in the management letter. The governing body of the Town should evaluate the cost/benefit of these issues to determine whether corrective action is warranted.

The following summarizes certain of the current and past practices in the Town that meet the new criteria of significant deficiencies:

**Establish Internal Controls over the Preparation of Audited
Financial Statements:**

Although the Town maintains its accounting records in accordance with standards established by the State statutes, and is able to prepare reports for internal and State purposes, historically, the annual financial statements have been drafted by the independent auditor. Because the Town must take full responsibility for the accuracy and disclosure of the financial statements, it must, either internally, or through the use of a qualified outside party (other than the independent auditor), review the financial statements and related footnote disclosures to assure compliance with generally accepted accounting principles, and to verify that no material misstatements exist. Relying on the independent auditor to perform these functions is considered a control deficiency.

Corrective Action to be Considered:

The Town should either provide additional staff training in the area of preparing financial statement prepared under the GASB 34 reporting model, or retain a service provider to prepare, assist in the preparation, or review the statements to ensure material misstatements are not present.

(continued)

(continued)

Finding #

Finding/Noncompliance

Document Components of Internal Control:

In order to establish an effective system of internal controls, the Town should document the policies, procedures and controls over key financial transactions, including cash, tax/excise/utility, receivable activity, departmental receipts, purchasing, vendor disbursements, employee benefit/ payroll disbursements, and general ledger maintenance. This documentation could be used by departments as guidance to help safeguard assets, properly record transactions, and provide a basis for continuing operations when turnover occurs in key financial departments. Although the Town maintains certain policies and procedures, they are not complete, approved by the Board of Selectmen, and/or distributed to all applicable departmental personnel.

Corrective Action to be Considered:

Several years ago, the Committee on Sponsoring Organizations (COSO) of the President's Council on Integrity and Efficiency published comprehensive internal control guidance that has recently been put in place by publicly traded companies as a result of Sarbanes Oxley legislation. The COSO report outlines five components of effective internal control: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring. The Town should consider implementing a written internal control framework using the COSO model. Software programs are available to assist in this process.

Establish Internal Audit Function:

Massachusetts General Laws provide powers and duties to the Town Accountant to perform internal audit functions, including examining the books and records of all departments responsible for receiving and expending funds, and proving all cash balances at least annually. Internal audits are an important control measure to provide some assurance that procedures are actually being performed in accordance with management's assertions, and that assets actually exist and are properly safeguarded. The Town historically has relied on the independent auditor to perform these functions. This reliance, however, increases the risk that errors or irregularities could occur and not be tested or detected by management.

Corrective Action to be Considered:

The Town should consider, as part of its documented internal control procedures, establishing an internal audit function to properly monitor operations and assess risk of misstatement of the financial statement caused by either errors or irregularities.

(continued)

Finding #

Finding/Noncompliance

07-4

Improve Controls over Student Activity Funds (Significant Deficiency)

In our review of the Student Activity funds, we noted the following weaknesses in the internal control:

- The Student Activity funds held at Elmwood Street and Raymond E. Shaw schools are currently not Massachusetts General Law (MGL) compliant. Currently, both schools are making deposits to checking accounts held by the principals, instead of agency accounts held by the Treasurer, as required by MGL's.

We recommend that the Town comply with Massachusetts General Law. This will increase the oversight the Town has over the Student Activity Funds.

- During fiscal 2007, the Jr./Sr. High School Student Activity fund checking account bank statement had not been reconciled to the School's check book records for several months. A reconciliation was subsequently provided, however it differed from the School's records by approximately \$10,000.

We recommend that the checking account bank statement be reconciled to the School's check book balance monthly. In addition, total student activity fund program balances should be reconciled to both the checking account, and savings accounts bank statements, monthly.

- The Town Treasurer maintains the Jr./Sr. High School savings account bank statement as per MGL, however, annually transfers any balance over \$10,000 to the Town's money market account. This makes the reconciliation of the savings account bank statement to both the Town's Agency general ledger balance and to the School's program records a difficult process.

We recommend that the Town Treasurer transfer the appropriate amount back to the Student Activity fund savings bank account, and monthly perform reconciliations between the bank statement and both the general ledger and the School's program records.

- There appears to be a lack of segregation of duties at all schools. For example, the same individual assigned to prepare the monthly bank reconciliations is also responsible for preparing deposits, recording and maintaining the ledger, and writing and maintaining the checks.

(continued)

(continued)

Finding #

Finding/Noncompliance

We recommend another individual review the monthly reconciliations and initial or sign the actual reconciliations to provide documented evidence of the review. In addition, the monthly reconciliations should be provided to the Town Treasurer's office.

- The Town has not performed internal audits of the student activity funds over the last several years.

We recommend that the Town perform an annual review of the student activity funds at all schools. This will help ensure that errors and irregularities do not go undetected.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Cost</u>
07-5	Title I 84-010	<u>Maintain Employee's Time and Effort Records</u>	\$ 99,273
84-027/84.173	Special Education Cluster	OMB Circular A-87, Attach. B, Paragraph 8.h.3 requires all salaried employees paid in full from federal grant funds to furnish semi-annual certifications that they have been engaged solely in activities supported by the grant. These certifications must be signed by the employee or supervisor with knowledge of the work performed. The School Department did not maintain these certifications for its employees paid in full from the SPED Preschool grant.	\$ 371,593

In addition, the School Department did not maintain adequate documentation to support its payroll allocations for hourly employees paid from the Title I and SPED Cluster grants. OMB circular A-87, Attach. B, Paragraph 8.h.4 requires employees to document the portion of time worked on the grant and the portion of time worked in areas not related to the grant. Circular A-87 also requires that these time and effort distributions records must (1) be done after the fact (not estimated or budgeted), (2) account for the total activities for which the employees is paid, (3) be prepared at least monthly and coincide with one or more pay periods, and (4) be signed by the employee.

Recommendation:

We recommend that the School Department implement the same controls and procedures over time and effort documentation for full time employees of the SPED Preschool grant as it does for the Title I and other SPED grants. In addition, we recommend that the School Department maintain activity reports or timesheets for all hourly employees whose salaries are paid from federal grant funds. These documents should be signed by the employees and indicate the specific grant programs being worked on. This will help ensure that the School Department is in full compliance with these requirements.

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Cost</u>
06-1	84.027/84.173 Special Education Cluster	<u>Maintain Employee Time and Effort Records</u> Finding 06-1 was partially resolved in the current year and is repeated as a modified current year finding 07-5.	N/A