

TOWN OF MILLBURY, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2008

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To the Board of Selectmen
Town of Millbury, Massachusetts

In planning and performing our audit of the financial statements of the Town of Millbury, Massachusetts as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Millbury's 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control 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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Deficiencies considered to be significant deficiencies in internal control are noted in the table of contents and comment headings.

Additional Offices:

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

In addition, during our audit we became aware of several matters that are 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 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, 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
December 29, 2008

FOLLOW-UP ON PRIOR YEAR RECOMMENDATIONS:

1. 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:

During fiscal year 2008, the Town researched several years of details paid to officers, invoices issued to vendors, and payments received. Numerous inconsistencies were identified and steps were taken to remedy the issues. In addition, a new process was implemented to better track police detail activity and billing. At year-end, the police detail revolving account accumulated deficit was approximately \$ 148,000. However, due to the new process in place, the Town was able to identify approximately \$ 47,000 in outstanding receivables.

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.

Town's Response:

The Finance Department on a weekly basis now receives copies and supporting detail of the invoices, as well as a copy of the deposit detail. The Finance Department reconciles the detail to the invoices, and is recording the information on a weekly basis. The Finance Department has analyzed the current days sales outstanding (DSO), and has made the determination that anything over 45 days past due is to be forwarded to the Millbury Chief of Police for follow up with the vendor. The Finance Department and the Millbury Police Chief will continue to explore ways to mitigate the credit risk to the Town.

2. Improve Controls over Student Activity Funds (Significant Deficiency)

Prior Year Issue:

In the prior year, we recommended the Town and School Department implement a variety of procedures to improve oversight, segregation of duties, and reconciliations for the student activity funds.

Current Year Status:

The Town and School Department have taken some steps, however has not accepted student activity fund legislation, or completely implemented proper reconciliation procedures.

Further Action Needed:

- We continue to recommend that the student activity funds held at Elmwood Street and Raymond E. Shaw schools comply with Massachusetts General Law. This will increase the oversight the Town has over the student activity funds and minimize the risk of errors or irregularities occurring and going undetected.
- We continue to recommend that checking account bank statements be reconciled to the Schools' check book balances monthly. In addition, total student activity fund program balances should be reconciled to both the checking account, and savings accounts bank statements balances, monthly.
- We continue to recommend that the Town Treasurer perform monthly reconciliations between the bank statement and both the general ledger agency balance and the Schools' program records.
- We continue to recommend that 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 of checking accounts should be provided to the Town Treasurer's office.

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

Town's Response:

- The School Department will work to ensure that the student activity funds held at Elmwood Street School and Raymond E. Shaw Elementary School will comply with Massachusetts General Law.
- The School Department will work to ensure that the checking account bank statements be reconciled to the Schools' check book balances on a monthly basis. In addition, a monthly reconciliation will be conducted for both the checking account and the savings account.
- The Town Treasurer will work to ensure that monthly reconciliations will be performed between the bank statement, the general ledger and the Schools' program records.
- The School Department will work to ensure that a second person conducts the monthly reconciliations and initials the document to provide evidence of review.
- The Town will perform annual reviews of the student activity funds at all schools. In addition, the School Business Manager will conduct periodic unannounced reviews of the student activity accounts.
- A training session has been scheduled for student activity account treasurers to begin the process to completely implement proper student activity fund legislation and reconciliation procedures.

CURRENT YEAR RECOMMENDATIONS:

3. Improve Compensated Absence Accounting – School Department

Our testing of compensated absence balances (accrued unused sick and vacation time) for the School Department revealed multiple instances where the detailed schedule of accrued time did not agree with employee contracts. The errors could result in an over or understatement of the liability and miscalculations of payments to retirees.

We recommend the School Department worksheets be updated regularly and reviewed by the School Business Manager to ensure they are current and in agreement with current labor contracts. Implementation of these recommendations will ensure payments are based on accurate information and the related liability is properly stated.

Town's Response:

The School Department will work to ensure that the accrual time worksheets are updated regularly and comply with current labor contracts. The School Business Manager will review these worksheets.

4. Ensure Proper Recording of Tax Title Taking in the General Ledger

Interest and penalties on tax title takings were not posted to the general ledger receivable. As a result, receivables in the general ledger were understated for much of fiscal year 2008, and a year-end adjustment was needed to reconcile the general ledger with the Tax Collector detail records.

We recommend that Accounting department properly post both the principal and interest/penalties of the tax title taking commitment to the general ledger. We understand that this course of action is currently being performed in fiscal year 2009.

Town Response:

The Finance Department has implemented this recommendation; specifically, the Assistant Town Accountant is reconciling all tax accounts contained

within the general ledger to the Treasurer/Collector detail. The Finance Department will post all necessary changes on a monthly basis, rather than wait and do a year end adjustment to balance to the Collector's detail records.

5. Monitor Collateralization of Cash Balances

At June 30, 2008, the Town had approximately \$ 14.3 million on deposit which was only partially secured by FDIC and DIFM insurance. Since FDIC insurance generally covers only the first \$ 100,000 in each bank, at June 30, 2008, the Town had approximately \$ 6.2 million on deposit that was in excess of the insurance. In the event of a bank failure, these deposits would be at risk.

We recommend the Town establish formal written cash investment policies, and work with its financial institutions to increase collateralization of major account balances. In order for the additional collateralization to be perfected (enforceable) with the FDIC, the Town must enter into formal agreements with its financial institutions that are in writing, be approved by the financial institution's board of directors or board delegated committee (as recorded in their minutes), and be continuous for the duration of the agreement. Also, it is recommended that pledged collateral equal to at least 102 percent of the Town's deposit level, be held at an independent third party institution, and be controlled by the Town so that any changes in collateral would require the Town's written approval.

Taking these measures will help protect the Town's cash balances from losses during the current period of economic uncertainty.

Town Response:

The Finance Department, more specifically the Treasurer, has begun the process of ensuring that all the Town's deposits are covered by any of the following: FDIC insurance, The Depositors Insurance Fund (DIF), or through the purchase of securities by the respective financial institutions where the Town's deposits are held. The securities purchased, which are limited to government backed securities, are purchased in the amount that covers the Town's deposits that would not be covered by FDIC insurance. The Town, in

conjunction with the above noted steps, is also developing and implementing an investment policy to further ensure the safety of the Town's deposits.

6. Establish FTC "Red Flag" Security Documentation

To combat the growing problem of identity theft, the Federal Trade Commission (FTC) issued new "Red Flag" rules that apply to all municipalities that have utility accounts such as water, sewer or electricity. Municipalities have until May 1, 2009, to have written programs to identify, detect, and respond to patterns, practices, or specific activities - know as red flags - that could indicate identity theft. Examples of red flags include alerts, notifications, or warnings from a consumer reporting agency, forged or inconsistent customer identifying information, as well as many other examples described in the FTC rules.

We recommend the Town establish the Red Flag documentation by the May 1, 2009 deadline to assure compliance with this new Federal requirement.

The rules can be found at:

www.ftc.gov/os/fedreg/2007/november/071109redflags.pdf

Town's Response:

The Town is in the process of reviewing the documentation relating to this requirement to determine if any accounts meet the requirement as defined by the FTC in the Fair and Accurate Credit Transactions Act of 2003; Final Rule. If the Town determines that it has accounts that satisfy the guidelines, then the Town of Millbury will take the necessary steps to ensure compliance with the Act.