

TOWN OF MILLBURY, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2011

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ROSELLI, CLARK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

Board of Selectmen
Town of Millbury
Millbury, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Millbury, Massachusetts, (the "Town") 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'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.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board of Selectman, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



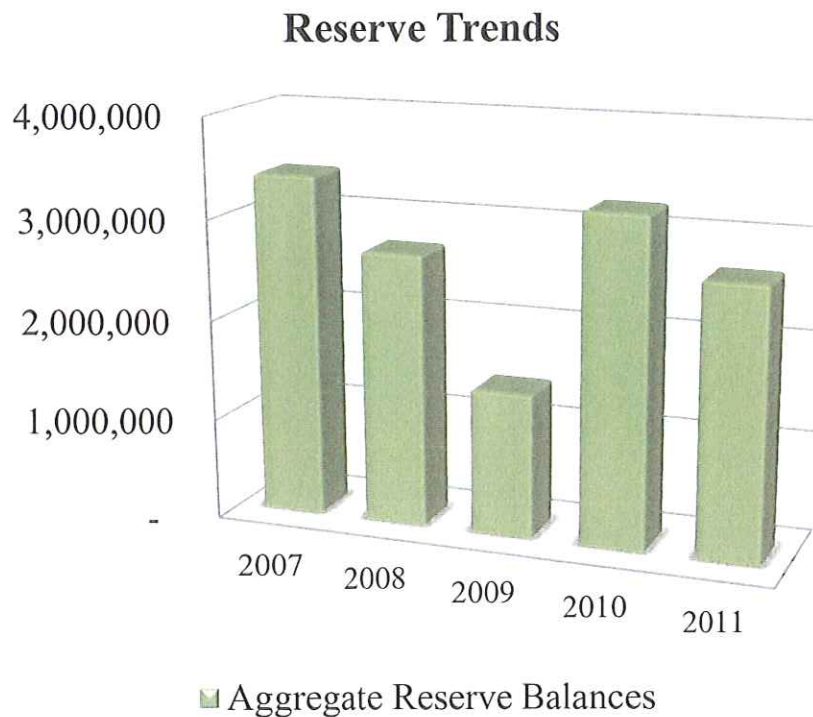
Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 5, 2011

I. OVERVIEW

As the United States continues to slowly emerge from the current economic recession, we caution all our towns to be as vigilant as ever in protecting reserves. Reserves are a buffer against any hiccups to the budget process, such as lower than estimated local receipts and reductions to State Aid.

That being said, it has been very difficult for towns to operate in the inconsistent economic climate that has existed in the past three years, thus it has been very difficult for most towns to protect reserves. Ultimately, many towns have conceded to the pressure of maintaining services in lieu of building reserves and thus are facing the consequences of those decisions including downgrades to their credit ratings.

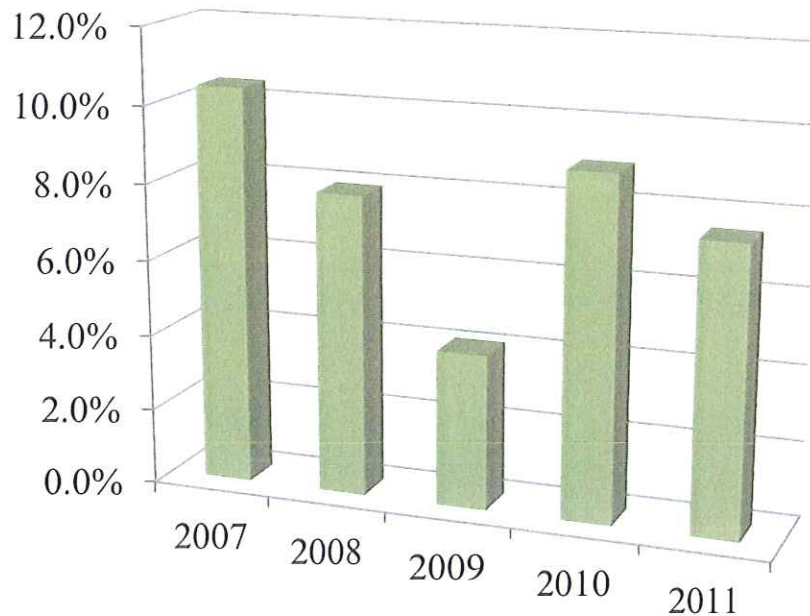
Despite these inconsistencies, the Town has managed to navigate through this economic instability in an effective manner. In fact with the exception of fiscal year 2009, which was the most challenging year, the Town has been able to maintain consistent reserve (*undesignated general fund plus stabilization*) balances over the prior five years as follows:



In doing so, the Town has demonstrated the ability to implement an effective budget process that not only meets annual operating needs, but also serves to maintain reserves at a level comfortable to meet satisfactory credit rating requirements in the 7% - 10% range. (*Optimum credit rating requirements are 10% and minimum are 5%*).

This can be observed in the illustration that follows:

Reserves as % of Revenues



The Town was recently rewarded for its efforts by Standard and Poor, when in its most recent credit evaluation increased the Town's rating from A+ to AA- with a stable outlook. This rating reflects stability, credit worthiness, and investment appeal that place Millbury in the top 20% of communities in the Commonwealth.

In upgrading the credit rating Standard and Poor commented as follows:

"We base the upgrade on what we consider the Town's history of maintaining a strong financial position and low debt burden with limited future capital needs. If reserves were to decline to the level we consider adequate or low, the rating could be pressured downward. On the other hand, should the Town's financial position improve significantly, its tax base growth resume, and debt remain modest over the two-year rating horizon for the outlook we could revise the rating upward."

We commend the Town for being aggressive in this regard and encourage the Town to continue to follow this protocol so its ultimate financial goals may be maintained.

Also, on another positive note, the Town continues to reflect the importance it places on internal control as we are happy to report that the Town has improved the following items communicated in our report to Management dated November 15, 2010.

- An analysis of the insurance withholding account was performed, and resultant of this was the adjustment of the liability balance to a more accurate amount.

- A review was performed of the police detail process. New policies were developed to address amounts past due more than 6 months.
- The Town reviewed its existing fraud policy. The review resulted in amendments to the policy that included removing the Finance Director in areas where reporting to the Finance Director could have posed a conflict of interest.
- The Town enhanced policies for blank checks by implementing a blank check log.

The remainder of the report reflects informational items and findings and recommendations. We hope that Management will address comments in the current year report with the same motivation it has addressed comments in the prior years.

II. INFORMATIONAL ITEMS

Statement on Auditing Standards No. 115 – Audit Communications

The American Institute of Certified Public Accountants (“AICPA”) recently issued Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (“SAS 115”). SAS 115 establishes new standards and provides guidance on communicating matters related to an entity’s internal control over financial reporting identified in an audit of financial statements. In particular, SAS 115 provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements in the following order:

1. Deficiency in internal control
2. Significant deficiency
3. Material weakness

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance. *Deficiencies in internal control* are not required to be communicated; however, we have chosen to also report that type of deficiency in this report.

We did not deem any of the findings in this report to be categorized as (2) or (3) above.

Other Post-Employment Benefits

Governmental Accounting Standards Board (GASB) No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefit Plans Other Than Pension Plans (“GASB 45”) now requires Towns to recognize in their financial statements a liability that recognizes Post-Employment Benefits as this benefit is earned by employees.

The Town’s most recent valuation reflected a future liability of approximately \$45 Million and while this is a future liability, its impact to current operations should not be ignored. This is especially important in light of the average employment age for Millbury employees, which is approaching 50, thus possibly making this liability unmanageable in 10 years.

To date, not many communities have been able to fully fund the current required contributions that are actuarially calculated, but some have at least begun to put some funds aside. Those towns are being viewed as more fiscally responsible by the credit agencies than those who ignore the liability completely.

While the impact of this future liability is in its infancy in terms of the impact on the Town’s overall credit rating, the rating bureaus will, in the not too distant future, begin to factor how communities are dealing with this liability.

Therefore, the issuance of GASB 45 is more than a financial reporting requirement. Its issuance reminds towns like Millbury that it has future obligations that may materially affect the Town.

III. FINDINGS AND RECOMMENDATIONS

Indirect Cost Study- School Reporting

One of the essential requirements of filing the school end of year financial report is the existence of an agreement between the Town and the School Department regarding the allocation of indirect expenditures for purposes of completing Schedule 19 of the report. This agreement, once completed, can be used annually until changes are required. Presently, no such agreement has been completed. We suggest the Finance Director and School Business Manager endeavor to complete and execute an agreement in order to comply with year-end filing requirements.

Management Comment

The Town Finance Director and the School Business Manager are currently working on an agreement that will be presented to all necessary parties for approval. We are confident the agreement will be completed and accepted before June 30, 2012

Enhance Fraud Risk Assessment

The Town does not have sufficient resources to create an autonomous, internal audit function. However, under Chapter 41 of MGL, the Town Accountant or equivalent position has the ability to examine books and records of any department on a periodic basis, and at least on an annual basis.

We suggest that the Finance Director cycle audit the cash handling departments. A different department should be chosen each month, and the cash handling for that month should be reconciled independently. For example, in the area of building permits, the number of permits issued multiplied by the amount per permit should be reconciled back to the cash turned over.

Such a process would provide an excellent deterrent against risk of fraud and would not take long to complete.

We understand that the Finance Director has an informal reconciliation process with the Departments, but feel the above would formalize and document the process more.

The Town should be aware that our audit procedures are designed to provide reasonable assurance that the financial statements are fairly presented and free of material misstatement. Our audit includes considerations for fraud; however, no assurances can be given that we would detect fraud through our audit. Our audit cannot be relied upon to detect fraud or illegal acts that may exist.

Management Comment

As indicated by the auditor, the Town currently performs such testing informally. The Finance Director will formalize this process more by creating the necessary documentation to include in the turn over testing that is done with each department annually. This will be incorporated into the fiscal year 2012 testing that is currently being performed.