

**TOWN OF MILLBURY, MASSACHUSETTS**

**MANAGEMENT LETTER**

**YEAR ENDED JUNE 30, 2013**

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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, 2013, 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  
October 29, 2013

## **I. OVERVIEW**

Fiscal year 2013 provided further improvements to the local, national and international economies. According to the U.S. Bureau of Labor Statistics, the Town's June 2013 unemployment rate of 7.2% was consistent with the state-wide unemployment rate and significantly better than the June 2013 unemployment rate of 8.3% for Worcester County. Furthermore, residential home values continue to improve and the market for new and existing home sales has been robust over the past year.

While these improvements provide optimism to the Town and its residents, the Town must be diligent in managing its finances. The Town has been successful in maintaining its reserve balances in trying economic times. 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. The Town, however, has managed its financial operations well despite this prolonged challenge.

The Town ended the year with approximately \$2.5 million in unassigned fund balance in its general fund. This represented over 6.5% of 2013 general fund expenses, which is consistent with the prior year and the State average. In fact the Town has been at or near the State average since at least 2007. In addition the Town has established free cash policies such that the reliance of free cash in future operating budgets is being phased out with the ultimate goal that free cash be used only for one time capital items.

This is the type of consistency that has allowed the Town to earn and maintain an AA-rating from the bond rating bureaus and we are encouraged by this effort.

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 in 2009 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 a significant deficiency or a material weakness.

### ***Other Post-Employment Benefits***

As discussed in detail in previous letters to management, the Town implemented the Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefit Plans Other Than Pension Plans* ("GASB 45") several years ago. Other post-employment benefits, or OPEB, typically include health and welfare plans and other similar benefits provided to Town retirees exclusive of pension benefits. The Town presently contributes 75% of the cost of retirees' (50% for surviving spouses) comprehensive medical insurance offered through Tufts Health Plan and Fallon Community Health.

At June 30, 2013, the Town reported a net OPEB liability of approximately \$10.7 million. However, the unfunded actuarial accrued liability for these future benefit obligations totals over \$39.7 million as of July 1, 2012 (the date of the most recent actuarial valuation study). The Town has not yet begun funding an OPEB trust.

Standards & Poor has begun to assign an allocation of the credit evaluation to the management of long-term liabilities, which includes OPEB. This is a reminder to Management that as part of its long term planning, the Town should begin to reflect the effects of OPEB into its plan. Other communities, although while still in the minority, are becoming more active in this regard.

### **III. FINDINGS AND RECOMMENDATIONS**

#### ***Contributions to Worcester Regional Retirement System***

The Town pays its annual appropriation to the Worcester Regional Retirement System (the "Retirement System") in two equal semi-annual installments, which is permitted by the Retirement System. The Town has historically utilized this installment method to manage its cash flows, particularly in the past when its financial condition was not as strong as it is today.

The Retirement System provides a financial incentive of nearly 2% should a municipal member pay their entire annual appropriation on July 1<sup>st</sup> of the fiscal year. Had the Town taken advantage of this financial incentive, it would have saved approximately \$20,000 in fiscal year 2013 and \$23,000 in fiscal year 2014. This return is significantly greater than most of the money market yields the Town is receiving on its excess cash balances.

As stated above, the Town's decision to use semi-annual installments was born during a time in which the Town's financial position was not as strong as it is today. The Town's improved financial condition coupled with a recent change in the manner in which the Commonwealth of Massachusetts is paying state aid (monthly versus quarterly) suggest that the Town is in a position to benefit from the financial incentive offered by the Retirement System.

We recommend that during the Town's preparation of its fiscal year 2015 budget, the Town evaluate the effect that this advanced payment will have on its financial condition and, if found to be positive, begin advance paying its annual retirement appropriation in fiscal year 2015.

#### **Management Response**

The Town has evaluated this, and will continue to do so. The change in the distribution of most State aid from quarterly to monthly is a positive one, and as such may allow the Town to go back to paying the retirement assessment in a lump sum. The Town is in the process of revising and updating cash and expenditure projections, with the goal of being able to make a lump sum payment to the retirement system, which would allow the Town to take the cost savings for the Fiscal 2015 year.

#### ***Retiree Health Insurance***

In fiscal year 2013, the Town began tracking retiree's portion of health insurance in a separate liability account within its general fund. At June 30, 2013, the Town was owed approximately \$10,000 from retirees for their portion of health insurance premiums. This amount is not significant to the Town's overall financial position and is likely a result of timing issues.

In connection with our audit, we reviewed the manner in which this account was being used in fiscal year 2014 and observed that this receivable increased by approximately \$25,000 in the first quarter of fiscal year 2014. We recommend that the Town evaluate its retiree health processes to determine the most effective and legal manner in which to collect these premiums.

### **Management Response**

The Town collects the retiree portion of health insurance premiums either by a direct payment from the retiree, or a payment from the retirement systems. All premium contributions due have been collected. The Town recently had split the account that the health insurance contributions were directed to, into accounts for active employees, and accounts for retirees. During the review it was determined that when an employee retires during the year, it creates a timing variance. This is a result of having to change the individual(s) from the active plan to the retiree plan. This change frequently results in a credit on the active plan, and new charges on the retiree plan, which impacts the employee contributions to the extent that they historically have not been moved from the active to the retiree, thus creating the appearance of not all contributions being collected. During the review we verified that all payments due from retirees, had in fact been received. The observation by the auditors during the audit, of the receivable increasing during field work is a result of October health insurance bills being processed and sent out the last week of September, and the October premiums not yet having been collected.

### ***Cash Handling at Transfer Station***

The Town currently permits its residents to pay transfer station personnel special handling fees for certain household goods like computer monitors, televisions, air conditioning units and microwaves with cash or check. Effective July 1, 2013, the transfer station began assessing special handling fees for furniture items.

The practice of cash collections should be limited as much as possible at the transfer station. We recommend that the Town require its residents to pay these fees by check and post signs throughout the facility notifying residents of this policy change. Furthermore, these signs should clearly indicate that receipts must be presented to the resident upon payment and, if not prepared, the resident should contact the Town to inform the Town of this policy breach.

Alternatively, the Town should investigate a system whereby residents (i) render payment for these items at the Town Hall or online in advance of their disposal, (ii) receive a transfer station disposal voucher and (iii) present this voucher to the transfer station at the time of physical disposal. This system eliminates collections at the transfer station. However, this system may result in complaints with many of its residents so the Town should weigh these options closely.

**Management Response**

The Town is currently working to install internet access at the Transfer station. This will allow the Town to start to take credit card payments at the Transfer Station. Once this is complete, we will then begin the transition of having all cash payments be handled by the Town Clerks office, and only allow for payment by check or credit card at the Transfer Station. The Town is also exploring the possibility of allowing for credit card payments online, with the ability to bring the receipt showing proof of payment for selected items with the individual to the transfer station.

***Student Activity Funds Audits***

The Town Treasurer has set up the appropriate Student Activity bank accounts for various schools that conduct student activities for the Town in accordance with Massachusetts General Law ("MGL") Chapter 66 of the Acts of 1996. Chapter 66 of MGL recommends that Towns that have student activity accounts with annual activity in excess of \$25,000 have an independent audit of these student activity accounts performed every three years, at a minimum. Since the last audit was performed for fiscal year 2011, this is a reminder that the Town's Student Activity Funds audit should be conducted for fiscal 2014.

**Management Response**

The School Department has been advised of the 3 year requirement, and provisions are being made for the audit during FY2015.