

TOWN OF MILLBURY, MASSACHUSETTS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2014

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Board of Selectmen
Town of Millbury
Millbury, Massachusetts

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 26, 2014

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Roselli Clark & Associates". The signature is written in a cursive, flowing style.

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
November 26, 2014

I. OVERVIEW

Local, national and worldwide economies continued to strengthen in fiscal year 2014. The Town's June 2014 unemployment rate of 6.0% is at or near pre-recession levels and while slightly higher than the state-wide unemployment rate of 5.5% it is modestly better than the unemployment rate for Worcester County of 6.2%. Furthermore, although the median home value in the Town is approximately 23% lower than the state-wide median, residential home values continue to improve and the market for new and existing home sales has been robust over the past three years.

The Town has been diligent in managing its finances during the past five years and 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 \$2.4 million in unassigned fund balance in its general fund, which was consistent with the prior year. This represented approximately 6.2% of total fiscal year 2014 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

Other Postemployment 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 postemployment 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, 2014, the Town reported a net OPEB liability of approximately \$12.2 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.

Standard and Poor’s Financial Services LLC, or S&P, 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 still in the minority, are becoming more active in this regard.

Municipal Data Breaches

Within the past few years, there has been an alarming increase in the number of intrusions into municipal networks throughout the United States. These breaches, many of which targeted relatively small towns, have resulted in the unauthorized access of resident, student and employee data and the theft of several hundred thousand dollars. Given that most cities and towns lack a structured information security program their systems are increasingly at risk to this type of event.

Recently, a select number of highly qualified companies have emerged that conduct “Data Security Audits” for municipal entities. The audit is a comprehensive examination of the administrative, technical and physical security controls that a municipality has implemented to protect personal information. The resulting audit report identifies each condition that exposes the municipality to potential unauthorized access and offers practical recommendations to remediate these conditions. The Town should evaluate the cost/benefit of conducting such an audit to mitigate the risk of such occurrences.

New Pension Accounting Standards

In June 2012, the GASB issued Statements No. 67, and No. 68. Both statements will materially impact the Town’s reporting of pension liabilities, effective fiscal year 2015.

Because the calculations necessary to implement these statements will be generated by the Worcester County Regional Retirement System (the System), it is imperative that the Town work with the System to ensure that the information needed is available in sufficient time to be included in the Town's fiscal year 2015 CAFR.

The following areas will be impacted materially:

- 1) Certain actuarial methods of calculating the accrued pension liability will now be mandated, instead of optional.
- 2) The value of actuarially determined pension benefits that have been earned (by both active and non-active employees and pensioners) will now be reported as a liability in the Town's Statement of Net Position and the applicable accrued costs included within the Statement of Activities.
- 3) Enhanced and more detailed financial statement footnote disclosure relative to the pension plan will be required.
- 4) Enhanced and more detailed required supplementary information reporting relative to the pension plan will be required.

In the event the information is not available, it will result in an adverse opinion to the financial statements, disqualify the Town's CAFR and potentially reduce the Town's credit rating. Therefore we urge the Town to contact the System and maintain an open line of communication regarding the timing of this information.

III. FINDINGS AND RECOMMENDATIONS

Student Activity Agency Accounts

The Town maintains an agency liability account for monies it holds on behalf of students for various student activities. By law, the Town Treasurer must hold and control the interest-bearing depository accounts for student activities. At June 30, 2014, the Town maintained three interest-bearing depository accounts for student activities with an aggregate bank balance of \$251,603. However, the recorded agency liability account for its student activities totals \$67,311 at June 30, 2014. This difference is the result of bank transfers not being made to match agency account activity.

It's important to note that the Town pools all its banking and investment accounts and recorded cash and related accounts are properly reflected in the base accounting records. However, this large difference between the bank balances and the agency liability accounts may have the following effects:

- Interest income that rightly belongs to the Town is being unjustly applied to student activities; and
- The difference in cash accounts and the recorded agency liability balances may result in students, class/club advisors questioning the accounting practices of the Town in relation to student activities.

We recommend that the Town Treasurer make the appropriate transfers between accounts to balance the student activities bank accounts with the recorded agency liabilities. Furthermore, we recommend that these accounts be evaluated on at least a semi-annual basis to ensure that the recorded agency liabilities are consistent with reconciled bank balances.

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