

TOWN OF FRANKLIN, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2012

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

To the Town Council
Town of Franklin, Massachusetts

In planning and performing our audit of the financial statements of the Town of Franklin, Massachusetts as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Franklin'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.

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 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 was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. In addition, because of the inherent limitation in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

During our audit, we became aware of matters that we believe represent 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, Town Council, 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.
January 24, 2013

STATUS OF PRIOR YEAR RECOMMENDATION:

1. Develop a More Formal Risk Assessment Process

Prior Year Issue:

In the prior year, we recommended that the Town implement a more formal risk assessment process.

Current Year Status:

The Town continues to informally perform risk assessment for possible fraud or material misstatement through various policies and procedures and regular reviews of trends in the financial statements. Risk assessment is a management function designed to identify where an organization may be vulnerable to errors and/or irregularities. A complete risk assessment process involves a written description of risk areas identified by those charged with governance (management and elected officials) and a description of how the organization intends on responding to the risks.

Further Action Needed:

We continue to recommend that the Town implement a more formal risk assessment process that includes internal audits and written identification of areas where potential fraud or material misstatements to the basic financial statements may occur. The Town should pay particular attention to its assessment of the Control environment; specifically, the risks associated with the departmental receipt process, related parties and potential conflicts of interest. Regular department head meetings could be used as a starting point for such risk assessment discussion.

Town's Response:

The Comptroller and Treasurer are developing a formal Risk Assessment & Control Activities worksheet. This worksheet will be used to analyze the risks department-wide and government-wide. Once those two departments are complete, the Treasurer and Comptroller will work with the department heads to review each individual department's risk. This will be formalized into a manual that will be reviewed annually.

CURRENT YEAR RECOMMENDATIONS:

2. Improve Accounting for Fire Detail

The Fire Department is responsible for all aspects of outside fire detail, including, billing, collection and remittance of funds. As a result, there is an increased risk that errors and irregularities could occur and not be detected. We further noted that the Fire Department's records for outside fire detail are not complete and up to date, and as a result, did not reconcile with the general ledger.

We recommend that the Town maintain current and complete records for fire outside detail accounts and monitor the receivables on a monthly basis to ensure these balances reconcile to the general ledger. This will provide an accurate audit trail over the billing and collection activity, as well as provide additional checks and balances and simplified year-end reconciliation process.

Town's Response:

The Town acknowledges certain weaknesses in the Fire Detail reconciliation process. Clerical help has been assigned in the Fire Department with the task of tracking the accounts receivable and reconciling with the Comptroller's office.

3. Segregate Ambulance Billing and Collection Procedures

The Fire Department is responsible for all aspects of ambulance fees, including, billing, collection and remittance of funds. As a result, there is an increased risk that errors and irregularities could occur and not be detected.

We recommend that the Town segregate and monitor its ambulance billing and collection procedures by transferring collections to the Treasurer's office and by having the Fire Department provide an aged receivables listing to the Town Accountant for review on a monthly basis. This will strengthen internal controls over ambulance revenues and will help to ensure adequate control over this account.

Town's Response:

The Town will be seeking bids for an outside ambulance billing and collection company to handle ambulance receivables.

4. Formalize a Fund Balance Policy

The Town does not have a formal (written) fund balance policy to guide the Town in maintaining a required or desired level of unassigned fund balance and set policy over other types of governmental fund balances. As a result, inconsistent classification of governmental fund balance may exist. The other types of government fund balance includes nonspendable, restricted, committed, and assigned, the definitions of which can be found in the Town's basic financial statements.

Specific items that should be addressed in a fund balance policy include (but are not limited to):

- Required/desired level of unassigned fund balance.
- Required/desired level of unrestricted net assets.
- Specify prioritization of fund balance amounts when multiple sources are used for one project, grant or activity (i.e., general fund monies are appropriated to partially fund a capital project, or grant match).
- Specify the body or official authorized to make assignments of fund balance and define time constraints on each assignment.
- Distinguish between encumbrances (commitments related to contracts not yet performed and orders not yet filled) and other assignments (previously called designations).
- Define any approval process for modifying existing assignments.

We recommend that the Town formalize a fund balance policy to provide guidance over the above noted areas.

Town's Response:

The Town will develop a formal Fund Balance Policy.

5. Prepare to Implement GASB 68

Beginning in fiscal year 2015, the Town is required to implement the Governmental Accounting Standards Board (GASB) Statement 68 – *Accounting and Financial Reporting for Pensions* that will require the unfunded pension liability be recognized on the Town's Statement of Net Assets, including enterprise funds. It is widely expected that the implementation of this accounting standard will have a material impact on the Town's basic financial statements.

We recommend the Town begin planning for the implementation of GASB 68, which includes gaining an understanding of the new requirements, education applicable for financial statement users, and ensuring that the Town's applicable portions of unfunded retirement system's unfunded liability is audited and available for inclusion in your financial statements. We will be monitoring best practices for implementing this standard across the state and will provide guidance in the coming year.

Town's Response:

The Town acknowledges the need to prepare for GASB 68. The Town will be seeking a breakdown of its share of the unfunded pension liability from the Norfolk County Retirement System.