

TOWN OF FRANKLIN, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2013

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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 basic financial statements of the Town of Franklin, Massachusetts 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 over financial reporting.

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 material weaknesses. 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.

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.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance, including overseeing the financial reporting process, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

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
February 20, 2014

STATUS OF PRIOR YEAR RECOMMENDATION:

1. Develop a More Formal Risk Assessment Process

Prior Year Issue:

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

Current Year Status:

In fiscal year 2013, the Comptroller and Treasurer/Collector performed internal audits of three departments and began the process of developing a formal Risk Assessment and Control Activities worksheet to analyze departmental-level and Town-wide risks.

Further Action Needed:

We recommend the Comptroller and Treasurer/Collector continue working towards developing a risk assessment matrix that can be used by all managers to assess the risk factors within their departments and identify controls that have been implemented to mitigate these risks.

Town's Response:

The Comptroller and Treasurer/Collector agree that the risk assessment process is an invaluable tool to ensure that proper internal controls are in place. This is a very large, multi-year project. We will continue to work towards completing this process. We are planning internal audits of several more departments in FY14.

2. Formalize a Fund Balance Policy

Prior Year Issue:

In the prior year, we recommended the Town formalize a fund balance policy to define the Town's desired range of unassigned fund balance and establish policies for other types of governmental fund balances (i.e., nonspendable, restricted, committed, and assigned).

Current Year Status:

It is our understanding that the Town is in the process of drafting a formal fund balance policy.

Further Action Needed:

We continue to recommend the Town formalize a fund balance policy to provide guidance for establishing, classifying and maintaining fund balances in all of the Town's governmental, proprietary, and fiduciary funds.

Town's Response:

The Town agrees with formalizing a Fund Balance Policy. The auditors have given us some examples to facilitate this process.

CURRENT YEAR RECOMMENDATIONS:

3. Analyze Debit Balances in Withholding Accounts

During our review of the Town's payroll withholding accounts, we noted that the Life Insurance, Dental Insurance, and Union Dues withholding accounts had debit balances that did not clear in fiscal year 2013.

We recommend the Town analyze the history in these payroll withholding accounts to determine whether the debit balances are the result of general ledger mispostings or incorrect employee withholdings. We also recommend the Town reconcile all payroll withholding accounts on a monthly or quarterly basis to ensure that activity is correctly posted and that proper amounts are being withheld and credited to these accounts each pay period.

Town's Response:

The Comptroller will do an analysis of all withholding accounts and make any changes and/or corrections required.

4. Modify Departmental Receipt Processes - Library

During our consideration of the Town's departmental receipt internal controls, we noted that the Library does not currently maintain a receipt log. As a result, there is no audit trail from the collection of the receipts to the amount turned over the Treasurer/Collector's office for deposit.

We recommend the Library modify its departmental receipt processes to create an adequate audit trail for all receipts. This will help to ensure that the Library is in full compliance with the Town's established departmental receipt policies and procedures.

Town's Response:

The Comptroller and Treasurer/Collector will make recommendations to the Library staff concerning the departmental receipt process.