

TOWN OF FRANKLIN, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2010

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
 <u>STATUS OF PRIOR YEAR RECOMMENDATIONS:</u>	
1. Close Inactive Capital Project Funds	3
2. Develop a More Formal Risk Assessment Process	3
 <u>CURRENT YEAR RECOMMENDATIONS:</u>	
3. Reconcile Performance Bond Balances	4
4. Prepare for GASB 54	4

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, 2010, 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.

Andover, Massachusetts
_____, 2011

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Close Inactive Capital Project Fund

Prior Year Issue:

In the prior year, we recommended the Town research the basis for various completed capital projects that have been inactive for many years.

Current Year Status:

This recommendation was not fully implemented during the fiscal year; however, we understand that subsequent to year end the majority of the inactive projects have been addressed.

Further Action Needed:

We continue to recommend the Town research all remaining inactive capital project funds.

Town's Response:

2. 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. Regular department head meetings could be used as a starting point for such risk assessment discussion.

Town's Response:

CURRENT YEAR RECOMMENDATIONS:

3. Reconcile Performance Bond Balances

The Town receives monies from residents and contractors as deposits or to be held in escrow until the completion of a development project. We noted the Treasurer's department does not currently reconcile these escrow balances to the Town Comptrollers' general ledger on a regular basis.

We recommend the Town formally reconcile the Treasurer's log of performance bond balances to the Town Comptroller's general ledger balances on a monthly basis to ensure that the amount of the deposits in the general ledger accurately represents the total liability to the Town. This will also provide additional checks and balances and should simplify the year-end reconciliation process.

Town's Response:

4. Prepare for New Accounting Standard GASB 54

Beginning in fiscal year 2011, the Town will need to implement a new accounting standard, called the Governmental Accounting Standards Board

(GASB) Statement 54 - Fund Balance Reporting and Governmental Fund Type Definitions, which establishes new criteria of special revenue funds, and new classifications of governmental fund balances. Certain Town-established funds, such as stabilization, will no longer be reported separately, but instead be reported in the general fund for the year end audited financial statements. In addition, the classifications of reserved, designated and unreserved fund balances will be replaced with new classifications of nonspendable, restricted, committed, assigned, and unassigned fund balances.

We recommend the Town begin planning for the implementation of GASB 54, which includes gaining an understanding of the new requirements and training to internal users of the audited financial statements. We could provide the Town with training resources on GASB 54, if requested.

Town's Response: