

TOWN OF FRANKLIN, MASSACHUSETTS

Management Letter

For the Year Ended June 30, 2016

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Additional Offices:

Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

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, 2016, 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 a matter that we believe represents an opportunity for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning that matter.

The Town's written response to our comment 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 comment and recommendations, we would be pleased to discuss them with you.

Melanson Heath

February 22, 2017

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 2016, the Comptroller and Treasurer/Collector continued 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 continue performing periodic internal audits.

We also recommend the Town expand its risk assessment process to include a formal assessment of the risks associated with the Town's increasing use of information technology, particularly in the area of electronic banking. This assessment should include written documentation of policies and procedures the Town has established to protect the Town's assets and address cyber risk.

Town's Response:

The Town will draft policies and procedures regarding information technology, to include electronic banking and cyber risk.

CURRENT YEAR RECOMMENDATIONS:

2. Implementation of New GASB Standard

Beginning in fiscal year 2017, the Town will be required to implement the Governmental Accounting Standards Board (GASB) Statement 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, and in fiscal year 2018 GASB Statement 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 74 applies if a trust fund has been established to fund future OPEB costs, and GASB 75 applies whenever OPEB benefits are offered. GASB has taken the position that OPEB is a form of compensation and the liability/expense should be recognized while the employee provides service to the government. GASB Statements 74 and 75 replace Statements 43 and 45, and require the full net OPEB liability and related expenses to be presented on the government's accrual basis financial statements. Previously, the liability was recorded incre-

mentally, generally increasing based on the degree to which a government funded the annual required contribution. It is expected that the implementation of these accounting standards will have a material impact on the Town's financial statements, including the recording of a larger net OPEB liability and substantial new disclosures.

We recommend the Town begin planning for the implementation of GASB 74 and 75, which includes gaining an understanding of the new requirements, educating applicable financial statement users, and ensuring that actuarial valuations are performed in a timely manner and in compliance with the new requirements. More specifically, it is critical that the Town coordinate with its actuary to discuss the need for two valuation reports for the measurement date of July 1, 2017; one prepared under GASB 74 and one under GASB 45, since both will be required in the Town's June 30, 2017 financial statements. It will be also important for the Town's to maintain an adequate system of documentation to support the employee census data information provided to the actuary, since this information will now be subject to annual audit testing.

Town's Response:

The Town will be ready for the new GASB standards. The Town will ensure that the actuarial valuation is completed timely and an adequate system of documentation to support the employee census data information is in place for audit.

3. Consider Reauthorizing OPEB Trust Fund Under New Legislation

The Town established an OPEB Trust Fund in fiscal year 2015. At that time, the legislation to establish such a fund (MGL Chapter 32B Section 20) offered limited guidance in terms of asset management, fiduciary responsibility, and allowable expenses. Legislation was recently passed (Chapter 218 Section 15 of the Acts of 2016) that significantly expanded and clarified the responsibilities of governmental entities in maintaining OPEB trust funds, including clarifying the criteria for accessing the fund's assets, providing investment options, and a custodial management framework.

While previously established OPEB trust funds may continue to exist using the language in existence at the time the fund was established, in order to operate under the provisions of the new language, the statute must be re-accepted by the governing body. We recommend the Town review the new language in MGL Chapter 32B Section 20 and consider reauthorizing the OPEB Trust Fund by formally re-accepting that provision.

Town's Response:

The Town will take this under review with the OPEB Trust Committee.