

December 9, 2016

Mr. E. Bernard Plante
Interim Town Manager
Town of Millbury
127 Elm Street
Millbury, Massachusetts 01527

10 New England Business
Center Dr. • Suite 107
Andover, MA 01810
(978)749-0005
melansonheath.com

Additional Offices:

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

Dear Mr. Plante:

During the course of our June 30, 2016 audit, we identified certain areas where improvements and/or efficiencies could be made that were not included in a formal management letter. The following summarizes these issues very briefly:

- **Enhance Capital Project Funds Budget Monitoring**

The capital project fund financial reports published from the Town's general ledger only report actual revenues, expenditures, and other financing sources/uses. While this provides valuable information, the current reporting structure does not provide management with easily accessible information on the status of project expenditures to date compared with authorized amounts.

We recommend that the Town maintain records to monitor capital projects on a life-to-date basis in addition to the annual fiscal basis. This can be done through the use of spreadsheets; however, the preferable method is directly in the Town's general ledger. This will enhance monitoring of project expenditures to authorized amounts, as well as reduce the risk of overexpenditures occurring and going undetected.

- **Reconcile Student Activity Funds**

The Town maintains an agency fund 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, 2016, the Town maintained three interest-bearing depository accounts for student activities with an aggregate bank balance of \$102,305. However, the recorded agency liability account for its student activities totals \$75,247 at June 30, 2016. This difference is the result of bank transfers not being made to match agency account activity.

We recommend that the Town 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.

- **Document Policies and Procedures Over Federal Awards**

Significant new requirements related to federal awards, established through OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (UG) were applicable in fiscal year 2016. These requirements stipulate that federal award recipients must document their policies and procedures over certain aspects of financial and program management. Specifically, written policies are required for the following:

- Cash management
- Determination of allowable costs
- Employee travel
- Procurement (see next section for further detail)
- Subrecipient monitoring and management

We recommend the Town ensure that written policies and procedures are compiled and adopted as soon as practicable to avoid any single audit compliance findings in fiscal year 2017.

- **Prepare for New Single Audit Guidelines Over Procurement**

There were new requirements related to the Single Audit Act as a result of OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (UG) were applicable in fiscal year 2016. Included in these new requirements were new procurement rules over purchases made with federal grant funds, which differ in certain respects from Massachusetts procurement laws (MGL Ch.30B, et al). The OMB provided a grace period of two full fiscal years after the effective date of the Uniform Guidance to allow entities to comply with the new procurement standards. Consequently, the new procurement standards will be effective as of July 1, 2017.

Under the new requirements, Federal award recipients must:

- Establish written policies and procedures for the following:
 - Procurement in compliance with new procurement standards
 - Standards of conduct covering conflicts of interest
 - Process for conducting proposal evaluations
- Maintain certain records to detail the history of procurement
- Implement oversight procedures to ensure contractors perform in accordance with terms.

Differences to MGL Ch. 30B include:

- Under the new rules, purchases of \$3,000 - \$10,000 must have evidence of obtaining/evaluating prices from more than one source; MGL Ch. 30B does not contain any requirements for purchases under \$10,000.
- There are no exemptions allowed under the new procurement standards; MGL includes exemptions for certain types of purchases such as Special Education services and supplies.
- Sole-source/no-competition purchases are allowed only in certain situations and are not dependent on the purchase amount; MGL sole-source requirements are less specific.

We recommend the Town review the new requirements and modify their own procurement policy to ensure compliance with Uniform Guidance.

- **Prepare to Implement GASB 75 for OPEB**

Beginning in fiscal year 2018, the Town will be required to implement the Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 Statement 75 replaces Statement 45, and requires the full net OPEB liability and related expenses to be presented on the government's accrual basis financial statements. Previously, the liability was recorded incrementally, 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 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. It is critical that the first GASB 75 actuarial valuation be completed in a timely manner, preferably with July 1, 2017 measurement date. It will be also important for the Town 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.

- **Implement Municipal Modernization Changes**

In August 2016 the Governor signed the Municipal Modernization bill which changes and streamlines many existing Massachusetts General Laws (MGLs) that apply to local governments. The changes include revisions to MGLs affecting borrowing, collection procedures, financial management and governance, tax administration and exemptions, and special funds. These changes generally are effective November 7, 2016.

We recommend the Town take action to understand and implement the changes that are applicable to the Town. This will hopefully help reduce the Town's accountability and governance requirements, while ensuring continued compliance with MGLs.

We encourage the Town to implement these recommendations in order to improve controls and efficiencies. I will be available to discuss these with you in more detail at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott C. McIntire". The signature is stylized and somewhat cursive, with a large, sweeping flourish at the end.

Scott C. McIntire, CPA
Vice President