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The Board of Selectmen
Town of Ashburnham, Massachusetts

Dear Board Members:

In planning and performing my audit of the financial statements of the Town of Ashburnham for the year ended June 30, 2014, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, during my audit, I noted certain matters involving the internal control structure and other operational matters that I am presenting for your consideration.

My consideration of the internal control structure was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that would be considered reportable conditions under standards established by the American Institute of Certified Public Accountants. In addition, because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected by such control structure.

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 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 Town of Ashburnham, Massachusetts' financial statements will not be prevented or detected and corrected on a timely basis. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses.

Other matters involving the internal control structure and other operational matters are presented in the following report. These matters were considered in determining the nature, timing and extent of the audit tests applied in my audit of the financial statements, and this report does not affect my report on those financial statements dated March 17, 2015. I have not considered the internal control structure since the date of my report.

This report is intended solely for the use of the Board of Selectmen and Town Management and is not intended and should not be used by anyone other than these specified parties.

Bill Fraher, CPA
March 17, 2015

**TOWN OF ASHBURNHAM, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2014**

Section I - Overview of Operating Results

[Please note that the discussion of the Town's financial results are based on amounts in the Town's fund financial statements (rather than the entity wide statements), presented in accordance with Generally Accepted Accounting Principles (GAAP).]

For the year ended June 30, 2014, general fund revenues and transfers (budgetary basis) increased 5.2% to approximately \$13.85 million. Overall, the Town's general fund revenues were over budget by \$352,612 or 2.6% with no significant variances between budget and actual numbers. At the same time, the Town's general fund expenditures were under budget by \$119,331 or 0.9% due to unexpended budget amounts in various departments.

For the fiscal year ended June 30, 2014, the Town showed an increase in its general fund reserves. At June 30, 2014, the Town's general fund unassigned fund balance was \$408,599, almost unchanged from \$401,786 at June 30, 2013. The Town's general fund free cash at June 30, 2014 (which is a calculation made by the Department of Revenue utilizing undesignated fund balance and other amounts) is \$273,527, also almost unchanged from \$278,329 at June 30, 2013.

For the fiscal year 2014 budget, the Town budgeted to use \$273,527 in free cash and overlay surplus to fund budget items (down slightly from \$300,823 for fiscal year 2013). This use of available funds was fully replenished by excess revenues and unexpended appropriations (net overall budgetary variance for the year was \$376,644).

The Town has worked hard over the past several years to maintain a positive financial position. Given the continued difficult economy and state budget issues, the Town will likely have several more years of tight budgets. The Town is now in a stronger position in that it has approximately \$1,300,000 in combined free cash, capital improvement and stabilization fund balances. This represents approximately 9% of the annual operating budget of the Town, which is in the middle of the 5% to 15% range. Despite these reserves, the slow economy will continue to make the budget process challenging for the next few years. As it has done in the past, the Town should monitor the trend of tax revenues, local aid and other receipts and ensure that annual operating budgets are kept within available revenue and other funding sources.

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Section II - Control Deficiencies

Under auditing standards, there are three categories of internal control deficiencies and other matters that can be identified during an audit. These three categories are material weaknesses, significant deficiencies and control deficiencies. Any items that are identified as material weaknesses or significant deficiencies require modification of the auditor's report on internal control and compliance (which is presented in the report on the financial statements).

II-A. Material Weaknesses

There were no material weaknesses noted during this year's audit.

II-B. Significant Deficiencies

There were no significant deficiencies noted during this year's audit.

II-C. Control Deficiencies

II-C-1. GASB 34

In 2005, the Town implemented GASB Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Town still has some GASB 34 compliance issues that should be addressed. These include:

- Completing the remaining requirements for full accrual accounting (recording debt, capital assets, accrued interest and other accrual items).
- Segregating funds by purpose (these should also conform with the Department of Revenue's UMAS Manual).
- Converting revenues to the categories required for entity wide statements.

The Town should work on eliminating some or all of these items in the coming year.

II-C-2. Statements of Auditing Standards on Fraud & Risk Assessment

The Auditing Standards Board has issued numerous Statements on Auditing Standards (SAS) related to fraud and risk assessment. One such statement, SAS 99 - *Consideration of Fraud in a Financial Statement Audit*, outlines an auditor's responsibility as it relates to the possibility of fraud. One area where most communities are exposed to fraud risk is in the area of miscellaneous cash receipts. Due to the nature of Town operations, it is necessary that certain miscellaneous cash receipts be decentralized at various Town departments. Although the dollars involved are often not material to the financial statements, this situation creates an internal control concern.

Section II - Control Deficiencies (continued)

II-C-2. Statements of Auditing Standards on Fraud & Risk Assessment (continued)

The Town has already taken certain steps to address this issue. The Town should monitor this area for possible additional internal control improvements. One possible enhancement is to have periodic internal audits of selected departmental cash receipts, where departmental turnovers are matched to underlying documentation. While other steps could be implemented, the cost of a more tightly controlled system for miscellaneous departmental receipts must be weighed against the related internal control benefits.

The Auditing Standards Board also recently issued several new SAS that are collectively called the "Risk Assessment Standards". These standards change and expand an auditor's responsibility in reviewing, identifying and assessing risks faced during a financial statement audit. These standards also affect management's responsibilities in this area.

One of the elements of an organization's internal control is risk assessment. Therefore, it is important that the Town periodically perform a risk assessment process to analyze, identify and evaluate areas where the Town may be exposed to various financial risks. As part of this process, the Town should review its systems, procedures and internal controls in all material financial and operational areas to determine if any modifications are required to minimize such risk. The Town should also ensure that it has an ongoing monitoring program in place to periodically test the effectiveness of any related policies and procedures that are in place.

II-C-3. Fund Structure & Chart of Accounts

The Town's current general ledger fund structure and chart of accounts does not conform to the Department of Revenue's Uniform Municipal Accounting System (UMAS) manual. For example, enterprise funds should appear in the Town's chart of accounts in the same area. However, the Town's Water Fund is currently Fund 25, the Water Tank Project is Fund 268 and the Sewer Fund is Fund 651 and the Light Fund is Fund 62. Special revenue funds are similarly not numbered in an orderly manner.

The Town should consider revising its fund structure to better conform to the (UMAS) manual.

II-C-4. Light Plant Accounts

In most communities, the Light Plant is allowed separate accounts for depreciation, customer meter deposits and certain other special funds, so that interest earned will stay with the applicable fund. However, Light Plant operating funds are usually commingled with general Town funds (as they are with capital projects and most special revenue funds) and interest is considered general Town interest. In Ashburnham, Light Plant operating cash is maintained in a separate account. In addition, there is a stabilization fund not recorded and tracked on the Treasurer's records.

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Section II - Control Deficiencies (continued)

II-C-4. Light Plant Accounts (continued)

The Town should examine the possibility of commingling operating funds with Town funds, which would assist in maximizing interest income and possibly eliminate the need for temporary borrowing. The Town should also place the stabilization account on the Town Treasurer and Accountant's records. Monthly reconciliations of Town general ledger cash to light ledger cash (which have been performed for many years) should continue as an important component of this process.

II-C-5 Trust Funds

The Town needs to examine its categorization of trust funds. It is unclear if all funds categorized by the Town are indeed trusts and, if they are, what amounts should be categorized as expendable vs. nonexpendable components.

The Town should research these funds to determine proper categorization and the correct expendable vs. nonexpendable amounts.

II-C-6 Budgetary Accounting

The Town should consider the following changes to the manner in which budgets are generated and adopted by Town Meeting. These are technical in nature but would improve the Town's budgetary accounting.

1. Budgets for employee benefits should be net of any amounts charged to enterprise funds, with enterprise funds showing employee benefits budgets. Only indirect costs should be shown as transfers from enterprise funds to the general fund.
2. Amounts budgeted for water, sewer and electric benefits and indirect costs should be stipulated in the certified budget.

II-C-7 General Ledger Variances

During the audit, we noted a number of smaller variances between amounts on the general ledger and supporting detail. These included amounts for various taxes receivable and certain fund balances.

While these variances were not material to the financial statements, the Town should improve its year end closing process to ensure that general ledger amounts agree with the underlying documentation that exists at the departmental level.

Section II - Control Deficiencies (continued)

II-C-8. Appropriation Deficits

Town Meeting approves the budgets for current year spending. Once set, these cannot be put into deficit unless there is a specific state statute allowing this to occur (such as for snow and ice). In 2014, the Town spent more than the approved general fund budgets for debt service and employee benefits.

The Town should not spend in excess of amounts approved at Town Meeting. In the future, a reserve fund transfer, special Town Meeting action or other authorized process should be followed to address any budget shortfalls.

II-C-9. Internal Control Policies and Procedures Manual

The Town does not have a comprehensive internal control policies and procedures manual relating to the accounting and financial operations of all Town departments. This manual can provide many benefits, including the documentation of procedures for ongoing monitoring purposes, the ability to more easily train new staff in policies and procedures that have been approved by management and the setting of consistent practices for all Town departments.

A comprehensive internal control policies and procedures manual should be developed and approved. This document should be in sufficient detail to establish clear requirements for day to day operations and allow new staff to understand the Town's internal control systems.

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Section III - Informational Matters/New Accounting & Auditing Standards

III-1. GASB 45 - Other Postemployment Benefits (OPEB)

For the 2014 financial statements, the Town implemented GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As required by GASB 45, the Town is recognizing its post employment benefit liability (primarily retiree health insurance) over a 30 year period.

At June 30, 2014, the liability on the Town's financial statements is \$685,510. This is based on the first six years of recognizing current costs for this liability and amortizing (over a 30 year period) the current actuarial liability of \$5,830,758.

As the Town continues to recognize current year unfunded costs, amortize the actuarial liability and record amounts at future values, this financial statement liability will continue to grow. If unfunded, this actuarial liability is projected to be \$40 million at the end of the thirty year amortization period. As this liability grows, the Town should consider addressing a possible long-term funding strategy. The size of the unfunded liability and the existence of a funding plan could have an impact on future bond ratings.

III-2. GASB 68

For the 2015 financial statements, the Town will be required to implement GASB Statement Number 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. This statement requires that the Town recognize annual pension expenses on an actuarially determined basis and recognize its share of the Regional Retirement System's unfunded liability in the financial statements. This will place an additional large liability on the Town's government-wide financial statements. As of January 12, 2012 (the date of the last available Regional Retirement System actuarial study), The Town's share of the System's unfunded liability was approximately \$7,000,000.