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Board of Selectmen
Town of Ayer
Town Hall
Ayer, MA 01432

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Town of Ayer, 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 Ayer, Massachusetts's internal 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 of Ayer, Massachusetts's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Ayer, Massachusetts's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified.

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.

We do not consider the following matters to be significant deficiencies or material weaknesses. However, they are matters we want to communicate to you.

Governmental Accounting Standards Board – Statement #54

The Governmental Accounting Standards Board (G.A.S.B.) issued Statement #54 which becomes effective for the Town as of June 30, 2011. According to the G.A.S.B., the objective of the statement is to “enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.”

The reporting requirements of G.A.S.B. Statement #54 will eliminate the “reserved” component of fund balance in governmental funds. It will be replaced by a hierarchy of fund balance classifications based on the relative strength of the constraints that control how specific fund balance amounts can be spent. The new hierarchy of fund balance will be as follows:

1. Nonspendable
2. Restricted
3. Committed
4. Assigned
5. Unassigned

In addition, certain fund balances (i.e. stabilization fund) previously reported as a special revenue fund, will be reported in the general fund.

The Division of Local Services has not yet changed the Uniform Municipal Accounting System Chart of Accounts to comply with G.A.S.B. Statement #54 and may not do so. However, the Town has the responsibility to have a “designated person” who is responsible for reviewing and understanding the financial statements prepared in accordance with generally accepted accounting principles. Therefore, we recommend that the Town Accountant obtain a copy of the G.A.S.B. Statement #54 and become familiar with the reporting requirements.

Management Response – Lisa Gabree, Finance Manager

I attended a presentation of GASB 54 by James E. Powers CPA of Powers & Sullivan at the Massachusetts Municipal Auditors and Accountants Association’s continuing education program held in March 2011. In addition, I ordered a copy of GASB 54 from the Government Accounting Standards Board. I will review the publication and attend training as available during the next several months.

Other Post Employment Benefits

Implementing GASB 45

The Town implemented Governmental Accounting Standards Board (G.A.S.B.) Statement Number 45. As a result, the Town's financial statements reflect a liability and the related expense for Other Post Employment Benefits (OPEB). Other Post Employment Benefits include the Town’s share of retirees’ health and life insurance benefits.

The Town had an actuarial valuation of the OPEB plan as of July 1, 2008. The valuation reported an Unfunded Actuarial Accrued Liability (UAAL) of \$20,228,087. GASB 45 requires the Town to report an increasing portion of the UAAL over a thirty-year period. The Town was required to report a \$2,599,804 Net OPEB Obligation liability and related expense in the financial statements.

Reporting the liability and related expense caused a reduction in the Town’s net assets equal to the \$2,599,804 amount. The OPEB liability has a 30-year phase in period. Therefore, the OPEB liability will continue to grow by a similar amount annually unless the Town funds it or partially funds it.

Management Response – Lisa Gabree, Finance Manager

At the May 2011 Annual Town Meeting, the Town voted to “accept the provisions of G.L. c. 32B, sec20, to create an “Other Post Employment Benefits Liability Trust Fund” to meet the Town’s obligations under the Government Accounting Standards Board (GASB) Statement #45 to fund the Town’s future obligations for the cost of other post employment benefits identified by the GASB #45 Statement; and ...to raise and appropriate the sum of \$10,000...” as funding.

Town Officials (Selectmen, Finance Committee and Finance Manager) recognize the \$10,000 is a token amount of funding meant to recognize the Town’s liability. Officials will be working toward a more realistic funding plan, while balancing the need to provide municipal services under severely challenged economic conditions.

Internal Controls over Financial Transactions

The American Institute of Certified Public Accountants (AICPA) has adopted Statement on Auditing Standard Number 112 (SAS 112). This standard places a heavy emphasis on management's responsibility for establishing, documenting and periodically reviewing its systems of internal controls over key financial transaction cycles (i.e. payroll, purchase/disbursements, accounts receivables and cash) and over financial reporting. A goal of the standard is to heighten management's awareness that they are ultimately responsible for their financial statements and systems of internal control and, therefore, must weigh and manage the associated risks. In establishing the controls, management is responsible for assessing the fraud risk related to each cycle. The new standards require us to report a deficiency when an entity has "inadequate documentation of the components of internal control".

The Town complied with the requirements of SAS 112, during the fiscal year ended June 30, 2010. We recommend that the Town continue in its effort to document the internal accounting control procedures and to document the risk assessment of the various internal control cycles (i.e. potential for fraud or material errors). The documentation requirement is a means to ensure that management's intended significant controls are known and can be evaluated during the audit process. Adequate documentation of internal control policies also provides a mechanism to ensure that management's intentions relating to internal control will be available when there is turnover in key financial positions.

Internal accounting controls are designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness of operations and compliance with applicable laws and regulations. When reviewing and documenting internal accounting controls, the COSO (Committee of Sponsoring Organizations) framework model, which consists of the following five interrelated components, should be considered:

1. Control Environment – This relates to the attitudes, awareness and actions of personnel that relate to internal control and its importance in achieving reliable financial reporting.
2. Risk Assessment – This is the process of identification and analysis of relevant risks to the achievement of objectives relating to financial reporting and other internal control matters.
3. Information and Communication – This relates to systems that have been developed to identify, capture and exchange information in a form and time frame that enables personnel to carry out their assigned responsibilities.
4. Control Activities – This relates to policies and procedures that are in place to help ensure that management directives are carried out.
5. Monitoring – This is the process that is performed by management to assess the quality of internal control performance.

Management Response – Lisa Gabree, Finance Manager

The Town will continue its efforts in documenting internal control procedures and will work with the independent auditors to develop documentation of risk assessment regarding potential for fraud and/or material errors.

Cash Deposits and Investments

The Town Treasurer often has a considerable amount of cash to invest. Although somewhat limited by statute, the Treasurer still must weigh risk versus yield. The Federal Deposit Insurance Company (FDIC) insures government cash deposits and certificates of deposits in banks up to \$250,000. Certain depositories have other insurance and collateralization policies, which provide additional coverage on deposits. Insurance coverage on deposits at the Massachusetts Municipal Depository Trust varies from day to day and is not easily determinable. Throughout the year, a portion of the Treasurer's funds can be uninsured and uncollateralized.

During difficult times, it is especially important that the Treasurer make deposits in sound financial institutions. The Treasurer currently uses the services of Veribanc to assess and rate the strength of various banks based on a number of financial factors. We recommend that the Treasurer continue to use this service, and we also recommend that the Town's investment policy be reviewed. The policy should include a minimum rating a bank must have in order for the Treasurer to invest in it. The policy should also consider the minimum ratings (i.e. Moody's) that other types of investment vehicles must have in order for the Treasurer to purchase them. Also, a policy of the maximum acceptable amount of uninsured or uncollateralized deposits, in a particular bank, should be considered.

Establishing and abiding by a sound investment policy is an important step in upholding the Town's fiduciary responsibility to the public.

Management Response – Stephanie Gintner, Treasurer

These steps are already being followed.

Unclaimed Checks

During the fiscal year ended June 30, 2009, we had noted that the Town had a number of old unclaimed checks that had been issued by the Town relating to the vendor and payroll bank accounts. These checks were carried as reconciling items (outstanding checks), but many of them were "stale" and should not have been cashed by the Bank. During the fiscal year ended June 30, 2010, the Treasurer made good progress reviewing and accounting for these old outstanding checks, and properly eliminated many of them from the outstanding list. We feel that this is an important area that needs to be continually monitored by the Treasurer. When the old outstanding checks are properly accounted for and removed from the outstanding list, the process of reconciling cash is made more efficient.

We recommend that the Town be certain that there is a standard policy in place relating to unclaimed checks. Annually, the Treasurer should prepare a list of checks that have been outstanding for more than one year. The requirements relating to the notification of the check owner (less than \$100 – mail notice to last known address, more than \$100 – mail notice and publish in a newspaper of general circulation) should be followed. A copy of the list should be forwarded to the Town Accountant and the appropriate journal entry should be made. The Treasurer should remove those checks from the outstanding list. Also, any amount carried in the "Unclaimed Checks" account for one year should be closed to the unreserved fund balance account in the Town's general fund.

Management Response – Stephanie Gintner, Treasurer

This policy is new and being followed.

Non Sufficient Funds (NSF) Checks

During our review, it came to our attention that there are a number of checks that have been received by the Town, which were deposited into the Town's depository bank account, that the bank subsequently returned to the Town because of insufficient funds. When the bank determines that a check has insufficient funds, it automatically redeposits the check in anticipation that funds would then be available. If there are still insufficient funds available, the bank notifies the Treasurer of the NSF check. The Treasurer then forwards this information relating to the check to the Assistant Treasurer, who then sends a letter to the person indicating that the check has been returned for insufficient funds. In addition, the Treasurer automatically debits the account from which the check was originally credited. If the check subsequently has sufficient funds, the same account is then credited.

Even after the above steps have been taken, there are still a significant number of NSF checks for which the Town has not received payment. We recommend that the Town review the procedures being followed in regard to collecting monies relating to NSF checks and establish a written policy relating to collecting these monies that are due to the Town.

Management Response – Stephanie Gintner, Treasurer

This is a policy that will have to be fine-tuned to make it more efficient.

Accounts Receivable

The Town has motor vehicle excise tax accounts receivable levies dating back many years. The old accounts receivables are most likely uncollectible, but the individuals owing those amounts should be "tagged" at the Registry of Motor Vehicles. As a result of being tagged, the Registry will not renew an individual's license until his/her outstanding bills are paid.

Absent a payment, the accounts receivable balances will stay on the Town's books indefinitely. We recommend that the Town consider writing off the old motor vehicle excise tax balances. If a payment is received on one of the levies that has been written off, it should be credited to an "old motor vehicle excise tax" revenue account. As a general rule, the general ledger should only reflect levies dating back five to seven years.

Management Response – John Canney, II, Collector

MGL C60A, Sec 7 governs motor vehicle excise tax uncollectible.

Property Tax Accounts

The Town's general ledger reflects some personal property tax and real estate tax receivables that are shown in the general ledger as liability accounts. Accounts of this type typically mean that refunds for overpayments have yet to be made.

We recommend that the Tax Collector review the credit balance reports from the accounts receivable system and compare them to the general ledger balances. If refunds are due they should be made in a timely manner.

Management Response – John Canney, II, Collector

The Ayer Collector's office can refund overpayments.

Written Information Security Program

The Commonwealth of Massachusetts has issued new regulations (201 CMR 17) aimed at **“protecting the security and confidentiality of customer information in a manner fully consistent with industry standards; protect against anticipated threats or hazards to the security or integrity of such information; and protect against unauthorized access to or use of such information that may result in substantial harm or inconvenience to any consumer”**. Although Massachusetts municipalities are not included in the scope of the new regulations, we believe that they represent “best practices” and that the Town should consider implementing them to the extent possible.

Entities, other than the Commonwealth of Massachusetts or any of its agencies or political subdivisions, must have a **written information security program (WISP)** that contains administrative, technical and physical safeguards that protect “personal information” whether it is in paper or electronic format. For purposes of a WISP, personal information is considered a Massachusetts resident's first name and last name or first initial and last name in combination with any one or more of the following data elements that relate to such resident: (a) Social Security number; (b) driver's license number or state issued identification card number; or (c) financial account number, or credit or debit card number, with or without any required security code, access code, personal identification number or password, that would permit access to a resident's financial account; provided, however, that “Personal information” shall not include information that is lawfully obtained from publicly available information, or from federal, state or local government records lawfully made available to the general public.

The WISP should include policies relating to: limiting data access to employees directly involved with a process, password protection over computers and software, maintenance and storage of paper documents, training employees about data security and regular monitoring of the WISP for compliance.

The standards in 201 CMR 17 suggest that a program should be appropriate to “the size, scope and type of business” and “the amount of resources available.” Even though not required to do so by law, we recommend that the Town establish a program that complies with the spirit of the law.

Management Response – Robert A. Pontbriand, Town Administrator

During the period of 2010-2011, the Town of Ayer has taken key measures toward a “Written Information Security Program” (WISP) as well other security measures which are closely aligned to those set forth by the Commonwealth of Massachusetts regulations (201 CMR 17). In August of 2010 the Ayer Board of Selectmen appointed a Town Information Technology Committee charged with developing writing information technology policies which include an information security program. In September of 2010, the Town I.T. Committee recommended and the Ayer Board of Selectmen hired the Town's first part-time Information Technology Systems Administrator charged with implementing software, hardware, and written security measures to protect the Town's information. Subsequently, in 2011, the Town has approved funding to make this Systems Administrator a full-time position.

During the period of 2010-2011, the Town has implemented preliminary security measures in terms of protecting its information and data on the Town's servers as well as key desktop computers where confidential information is handled (Accounting, Treasurer, Payroll, Town Administrator, etc.) New password protections and login protections continue to be implemented. Additionally, the town's Systems Administrator continues to safeguard all Town computer assets from potential unauthorized external and internal threats.

In 2011, the Town Administrator implemented a new policy in terms of point of access to the Town's paper personnel records. All paper personnel records are under lock and key in a new file cabinet, secured in the Assistant Treasurer's Office. Additionally, only the Town Administrator and Assistant Treasurer (the Town's appointed "Privacy Officer") have physical access to the records. Town Department Heads and Personnel have all been advised that access to personnel records must be in accordance with MGL which states that personnel files may only be viewed after written authorization is obtained and viewed in the presence of either the Town Administrator or Town Privacy Officer.

Moving forward the Town in 2011-2012 will officially codify its WISP through the efforts of the Town I.T. Committee, Town Administrator, Systems Administrator, Town Privacy Officer, and the Ayer Board of Selectmen. Further Town-wide training and awareness of the WISP and additional Town security systems and procedures will be promoted. The Town of Ayer remains committed to the security of all electronic and written information with particular concern for the security of personal information as defined under Massachusetts General Laws and Regulations.

Capital Assets

The Town complied with the Governmental Accounting Standards Board (GASB) Statement # 34, by maintaining a record of the Town's capital assets. In order to properly maintain an accurate listing of the Town's capital assets, the Town Accountant annually provides each department with a listing of their assets. It is very important that each department head carefully review and update the list each year. The departments have improved their reporting to the Town Accountant each year, however, we found that some departments did not properly respond or provide adequate back up documentation of changes to their fixed assets.

The annual update of capital assets should take into account all assets purchased during the year, retirements/sales, departmental transfers of assets and any other changes to the assets maintained by the department (i.e. trade ins and lease purchase arrangements, etc). It would be helpful for department heads to maintain an asset folder on a continuous basis throughout the year. Whenever an asset that meets the recording threshold is acquired, a copy of the invoice (or other supporting documentation for transfers, sales, etc.) should be put into the asset folder. This information should be forwarded to the Town Accountant in a timely manner each year so that the fixed asset spreadsheet maintained by the Town Accountant can be updated to reflect all changes.

Management Response – Lisa Gabree, Finance Manager

My office will be assisting the departments by setting up and distributing asset folders. In addition, a copy of the most recent department fixed assets along with a copy of the Management Letter comment will once again be distributed.

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This communication is intended solely for the information and use of management, and those charged with governance and others within the organization, and is not intended to be and should not be used by anyone other than those specified parties.

After you have had an opportunity to consider our findings and recommendations, we shall be pleased to discuss them further with you. We would like to thank you for the cooperation and courtesy extended to us during the course of the engagement.

Sincerely,

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants