

May 9, 2012

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, 2011, 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 Number 54

The Governmental Accounting Standards Board (G.A.S.B.) has been very active in recent years. When the Town implemented G.A.S.B Statement #34 several years ago, the financial statements took on a whole new look. Recently, the G.A.S.B issued Statement #54, which became effective for the Town for the reporting period ending June 30, 2011. As a result, the components of fund balance reported in the Town's audited balance sheet have new account classifications. According to 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 eliminated the “reserved” component of fund balance in governmental funds. It has been 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*, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund),
2. *Restricted*, constraints are placed on the use of resources that can be spent only for the specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitutional provisions or through enabling legislation, (for example, gifts, donations and most revolving funds),
3. *Committed*, includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Selectmen (the Town’s highest level of decision-making authority),
4. *Assigned*, intended (by the Board of Selectmen, Town Administrator or Town Accountant) to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned*, the residual classification for the government’s general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

Any of the five new components of fund balance could potentially be included in the Town’s audited balance sheet. The notes to the audited financial statements include a schedule that identifies the functions associated with each component of fund balance.

An element of GASB 54 that significantly impacts the Town’s audited balance sheet, for its governmental funds, is the requirement to report the Stabilization Fund as a component of fund balance in the General Fund. The Stabilization Fund was previously reported with the Non-Major Governmental Funds. This change increased the fund balance in the General Fund by \$987,972 as of June 30, 2011 on the audited balance sheet.

The Massachusetts Department of Revenue (Division of Local Services) does not intend to make changes to the Uniform Municipal Accounting System chart of accounts to comply with G.A.S.B. Statement #54. 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.

For the Town of Ayer, the Town Accountant has attended a seminar at the Massachusetts Municipal Auditors and Accountants Association continuing education program where the requirements relating to GASB 54 were presented. She also obtained a copy of the GASB 54 Statement from the Governmental Accounting Standards Board, and is familiar with the requirements of GASB 54.

Other Post Employment Benefits

Implementing GASB 45

As we noted in our prior audit report, the Governmental Accounting Standards Board (GASB) issued Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”. This statement requires the Town to account for and report the value of its

future OPEB obligations currently rather than on a “pay as you go” basis, (which is how these expenses are now being paid). Employee benefits can include pensions, health insurance and life insurance. Whereas the cost of the health insurance and life insurance for active employees is incurred while the employees are in active service, pensions and the Other Post Employment Benefits are taken after the employees’ services have ended. By operating on the “pay as you go” method, governments have incurred an unfunded liability.

The Town first implemented GASB 45 and had an actuarial valuation done during the fiscal year ended June 30, 2009. In accordance with the requirements, the Town had another actuarial valuation done for the fiscal year ended June 30, 2011. As a result, the Town's financial statements reported a liability and the related expense for Other Post Employment Benefits. Other Post Employment Benefits include the Town’s share of retirees’ health and life insurance benefits. The valuation reported an Unfunded Actuarial Accrued Liability (UAAL) of \$19,831,765. 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 Net OPEB Obligation liability of approximately \$3,800,000, in the fiscal year ended June 30, 2011 audited financial statements.

Reporting the liability caused a reduction in the Town’s net assets equal to approximately \$3,800,000. The OPEB liability has a 30-year phase in period. Therefore, the OPEB liability will continue to grow annually unless the Town funds it.

The Massachusetts legislature has approved Chapter 479 of the Acts of 2008, which provides for the establishment of an “Other Post Employment Benefits Liability Trust Fund”. The law is a local option that requires approval at Town meeting. Upon acceptance, the Town may establish an **irrevocable** trust fund to account for appropriations made to cover its unfunded actuarial liability of health care and Other Post Employment Benefits for its retirees.

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 obligation under the Governmental 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. In addition, at the May 2012 annual Town meeting, \$40,000 was appropriated to further fund the Town’s GASB 45 liability.

Internal Accounting Controls

During our annual audit, one of our main objectives, relating to the Towns system of internal accounting control, is to review the internal controls over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the audited financial statements.

The American Institute of Certified Public Accountants (AICPA) has adopted SAS 112 (Statement on Auditing Standard number 112). This standard relates to internal control documentation and places 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.

During our current review of the Towns internal accounting controls, we noted that the Town Accountant has prepared a draft of some of the Accounting/Treasury Departments internal accounting control procedures relating to Receipts, Expenses, Payroll and Cash reconciliation. This is a very good start to the process of documenting internal accounting controls as required by SAS 112.

We recommend that the Town continue in its effort to document the internal accounting control procedures (and financial management policies) 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.

Non Sufficient Funds (NSF) Checks

As we noted in our prior report, 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, and requesting payment. 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.

Subsequent to issuance of our prior report, the Treasurer has contacted the Deputy Collector and the Constable to see if there are additional steps that can be taken to collect on these NSF checks. They offered no additional advice, other than to be sure to send timely letters out requesting re-payment of the funds.

We recommend that the Town continue to try to use every means possible to collect on these checks and to be very diligent about sending letters to any person who has a NSF check, and to send the letter as soon as possible once notified of the NSF check. We also recommend that a second letter be sent within thirty days, if there is no success from the first letter.

Managements Response

In response to the Audit Letter from Giusti, Hingston and Company concerning NSF checks received by the town. All of the above steps are currently being used to collect on the NSF checks.

My suggestion to Mr. Giusti when he asked what more did I think could be done to collect on these checks, was that the Treasurer's office could send out a second letter requesting payment. The letter could be worded stronger than the first letter. It might be that we get a better response in payment of these NSF checks.

Accounts Receivable

As we have noted in the past, the Town has motor vehicle excise tax accounts receivable levies dating back many years.

When a motor vehicle excise tax bill is sent out, it is due and payable to the town within thirty days. If it is not paid within the thirty days, a demand for payment is then sent to the taxpayer and a Five dollar fee is added to the bill. If the bill is not paid within fourteen days, then a warrant is prepared and the bill becomes the responsibility of the Deputy Collector. If the taxpayer does not respond within thirty days to the Deputy Collector, Massachusetts general law gives the Tax Collector the authority to transmit to the Registrar of Motor Vehicles, a notice of non payment of the excise tax (specifying the name and address of the person to whom the excise tax was assessed). Upon receipt of such notification of non payment, the Registrar shall place the matter on record and not renew the license to operate a motor vehicle of the registered owner of the vehicle, nor issue a new registration of such to the person to whom the unpaid excise tax was assessed. The possibility of these actions taking place make it more likely that the excise tax bills will be paid.

This is a powerful tool that the Tax collector has at his disposal. It is important to follow these procedures on a regular and consistent basis to keep the amount of uncollected motor vehicle excise taxes as low as possible. The current Tax Collector does in fact follow all of the procedures noted above relating to issuing demands and warrants and using the services of a deputy Tax Collector, as well as notifying the Registry of Motor Vehicles of delinquent taxpayers, as detailed above.

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

As of your audit letter states, the collection process of original bill, demand, and warrant is how our office notifies a taxpayer of an outstanding motor vehicle excise tax bill.

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. There are a significant number of these accounts reflected on the general ledger accounting system.

We recommend that the Tax Collector review the credit balance reports from the accounts receivable system and compare them to the general ledger balances and work with the Town Accountant to try to determine why the credit balances are appearing on the general ledger. If refunds are due, they should be made in a timely manner. Because there are a significant number of these accounts reflected on the general ledger, the best way to go about taking care of the problem is to look at the current period first. Once this current period is reviewed and refunds are issued or corrections are made, then the previous year can be analyzed and taken care of. In order to make the General ledger manageable and as easy to use as possible, it is important to take care of these old lingering accounts.

Management Response

The Ayer Tax Collector office credits a refund for overpayment as we verify a verifiable overpayment. As your audit letter suggests, our office is working on the current year first.

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.

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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