

FRANKLIN REGIONAL RETIREMENT SYSTEM

Management Letter

For the Year Ended December 31, 2010

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The logo for Melanson Heath & Company, PC, featuring the letters "MH&Co" in a white serif font inside a dark blue rectangular box with a thin white border.

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To the Retirement Board
Franklin Regional Retirement System

In planning and performing our audit of the financial statements of the Franklin Regional Retirement System 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 Franklin Regional Retirement System's internal accounting 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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 deficiencies, significant deficiencies, or material weaknesses. In addition, because of the inherent limitation in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Additional Offices:

Andover, MA • Manchester, NH • Nashua, NH • Ellsworth, ME

During our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

This communication is intended solely for the information and use of management, the Retirement Board, and others within the System, and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson Heath + Company P.C.

Greenfield, Massachusetts
September 20, 2011

CURRENT YEAR ISSUE:

1. **CORRECTLY CALCULATE EMPLOYEE DEDUCTIONS**

During our testing of 25 employee contributions we found that deductions for five employees were incorrectly calculated. Specifically:

- Night shift differential pay was not included in the total pay subject to retirement deductions for one employee. As a result, retirement deductions were \$ 104 under-withheld.
- The additional 2% deduction for wages over \$ 30,000 was incorrectly calculated for five employees, resulting in an under-withholding of retirement deductions of \$ 133.
- The pay used to calculate retirement deductions for one school district employee did not include all categories of pay, resulting in under-withholding of \$ 1,044.
- The deduction percentage used to calculate retirement deductions for one employee was incorrect, resulting in under-withholding of \$ 197.

The System relies on its 39 member units to calculate deduction amounts. The level of understanding of the rules and regulations governing retirement deductions varies among the member units. Both of these factors complicate the System's ability to ensure deductions are calculated correctly. We understand that to address this issue the System is working to improve training and education of its member unit treasurers and to standardize the payroll reports submitted to the System by the member units. We recommend these initiatives continue to be implemented.