

**FRANKLIN REGIONAL
RETIREMENT SYSTEM**

Management Letter

For the Year Ended December 31, 2013

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
CURRENT YEAR ISSUES	
1. Review Bank Reconciliations More Timely	3
2. Ensure Refund Signatures are Notarized	3
3. Improve Controls over Journal Entries	3
PRIOR YEAR ISSUE	
4. Approve Invoices Before Payment	4

Additional Offices:

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

To the Retirement Board
Franklin Regional Retirement System

In planning and performing our audit of the basic financial statements of the Franklin Regional Retirement System as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

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 a 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 material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

The System's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Melanson Heath

October 29, 2014

CURRENT YEAR ISSUES:

1. **REVIEW BANK RECONCILIATIONS MORE TIMELY**

During our testing of the System's cash control procedures, we noted a time lag between the preparation of bank account reconciliations and the review of these reconciliations by a different individual. In one instance we found a lag of over three months between the preparation and review of the reconciliations.

While the System has properly initiated the independent review of bank account reconciliations, we recommend steps be taken to ensure the review is done in a timely manner, thereby strengthen this control.

System Response:

We understand and will strive to improve.

2. **ENSURE REFUND SIGNATURES ARE NOTARIZED**

During the fall of 2011, the Board voted to require notarization of member's signatures on all refund applications. During testing, none of six refunds reviewed were properly notarized in accordance with the Board's vote.

We understand the System has recently implemented this procedure.

System Response:

Implementation stalled because of priorities and concerns about modifying the existing form. We recently overcame the issue (of modifying the form) and are now aggressively requiring notarized signatures, with one exception: we have a request from someone who is out of the country and we do not know how notarizing works in Italy, so considering that the refund is only about \$1,000, and we have ample evidence that we are dealing directly with the member (and not a maleficent relative), we are not holding back from processing the refund request.

3. **IMPROVE CONTROLS OVER JOURNAL ENTRIES**

Our review of 25 journal entries, revealed two areas where improvements could be made:

- The preparer should initial each journal entry made.
- The review of journal entries should be documented by an individual independent of the preparer.

We recommend the System improve controls to address the issues identified above.

System Response:

We have implemented this recommendation.

PRIOR YEAR ISSUE:

4. APPROVE INVOICES BEFORE PAYMENT

During testing of 25 vendor invoices, we found one instance of inadequate approval. In this case, an invoice for lodging did not have the Executive Director's approval noted.

While the warrant that contained this invoice was approved by the Board, we recommend that all invoices be properly approved before being placed on a warrant.

System Response:

We understand and will strive to improve. Please note that this is an improvement from the 2011 audit, where there were three instances discovered.