

TOWN OF CHILMARK, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2008



100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

To the Honorable Board of Selectmen
Town of Chilmark, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Chilmark, Massachusetts as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Town of Chilmark, Massachusetts's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Chilmark, Massachusetts's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Chilmark, Massachusetts's internal control.

A control deficiency 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 significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, we became aware of matters that are opportunities for strengthening internal controls and enhancing operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

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

August 29, 2008

TOWN OF CHILMARK, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2008

TABLE OF CONTENTS

	PAGE
<i>Comments and Recommendations</i>	
Statement No. 45 Of The Governmental Accounting Standards Board	1
Formal Accounting Procedures and Policy Handbook	1
We recommend that the Board of Selectmen officially adopt the manual when completed.....	2
Fraud Risk Assessment	2
Statement on Auditing Standards (SAS) – SAS 112, Communicating internal control related matters identified in an audit	3
Develop a Disaster Recovery Plan	3

Comments and Recommendations

Statement No. 45 Of The Governmental Accounting Standards Board

Prior Year Comment

The Governmental Accounting Standards Board (the GASB) issued Statement No. 45 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement requires that:

1. a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and;
2. information about actuarial accrued liabilities associated with OPEB be reported and whether, and to what extent, progress is being made in funding the plan.

To implement GASB 45 the Town will have to adopt actuarial calculations for OPEB that are similar to pension calculations. It may be cost effective is the Dukes County Retirement System complete this valuation for all member units. This means the Town will have to have an actuarial valuation performed. This actuarial valuation is similar in nature to pension plan valuations in that future OPEB costs are considered to be part of today's employee costs. It is intended to answer the question "How much should the contribution be today to finance tomorrow's cost?"

The actuarial valuation will be required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. Failure to obtain an actuarial valuation will result in a qualification to the independent auditors' opinion on the basic financial statements. The Town is required to implement GASB 45 in fiscal year 2010.

Additionally, has been recognized that communities that have filed for Medicare Part B will have a lower liability in the GASB 45 calculation because Part B of the Medicare Program is medical insurance. This coverage helps pay for medical and surgical services by physicians, as well as certain other health benefits such as ambulance transportation, durable medical equipment, outpatient hospital services, and independent laboratory services. Any costs assumed by Medicare Part B will reduce the City's OPEB obligation

We recommend that management obtain an actuarial valuation and review the different insurance options that may reduce the liability.

Status - Resolution in process The Town has entered into an agreement with the county and other towns to have an actuary perform the required valuation.

Formal Accounting Procedures and Policy Handbook

Prior Comment

We noted that there no written policies and procedures for key administrative and financial functions of the Town. Because of the fact that there is a limited number of staff supporting key positions, a formal manual that identifies and documents key areas of administration and operations would reduce the risk to the Town in the event that personnel have extended absences.

We recommend that the Town document all key managerial functions in a manual that includes, among other items, 1) job descriptions; 2) daily, monthly, and yearly work procedures; and 3) other specific information relative to the function being documented.

Status – *Resolution in process*. Progress has been on developing a manual, but a formal document has not yet been published.

Recommendation

We recommend that the Board of Selectmen officially adopt the manual when completed.

Fraud Risk Assessment

Prior Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

We recommended that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

Status – *Pending resolution*. Critical cash collection and processing areas were prioritized and have been addressed. Town management is now reviewing accounting and treasury functions.

Statement on Auditing Standards (SAS) – SAS 112, Communicating internal control related matters identified in an audit

Informational Comment

Statement on Auditing Standards #112 (SAS 112) as identified in the heading above, includes the following statement; “Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.” SAS #112 specifically identifies “ineffective oversight of the entity’s financial reporting and internal control by those charged with governance” as at least a significant deficiency and a strong indicator of a material weakness in internal control.

In light of the above, we, as auditors, must *consider* the likelihood that a misstatement in financial reporting could occur and not be detected by the Town’s system of internal control. In our judgment, present management has the competency to perform the financial reporting and internal control monitoring noted above. We bring this new standard to your attention because it emphasizes that management *is* reviewing and taking responsibility for the financial reporting, and possesses the skills and competencies to prevent, detect, and correct potential misstatements there is not a control deficiency relating to this outsourcing.

Recommendation

This comment is meant to bring attention to the new auditing standard. We recommend that these matters be continually evaluated and monitored by management along with the Town’s overall internal control structure so that future management decisions do not contribute to creating a significant deficiency or material weaknesses.

Develop a Disaster Recovery Plan

Comment

While there are protocols in place for back-up and protection of data, we are not aware of the existence of formal documented procedures over the back-up, storage, and disaster recovery policies of the Town. We strongly encourage that these processes are documented, tested, and monitored to ensure that critical electronic information is not lost should a disaster occur. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing facilities.

Recommendation

We recommend that management develop a disaster recovery plan for all departments that includes, but is not limited to, the following matters:

1. Location of, and access to, off-site storage.
2. A listing of all data files that would have to be obtained from the off-site storage location.
3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
4. Responsibilities of various personnel in an emergency.
5. Priority of critical applications and reporting requirements during the emergency period.