

***TOWN OF CHILMARK, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2013***

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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, 2013, 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.

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

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Town personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

December 13, 2013

TOWN OF CHILMARK, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013

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## ***Comments and Recommendations***

## **Develop a Disaster Recovery Plan**

### Prior 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.

We recommended 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.

Status – A formal document has yet to be developed.

## **Fixed Assets**

### Prior Comment

With the implementation of GASB # 34 in fiscal year 2004, came the responsibility of fixed assets reporting and during 2004 the Town conducted an initial fixed asset inventory. Since that time the Town has relied on the year end audit to account for and classify fixed asset additions.

The Town should have policies and procedures to in place to accurately and timely account for fixed asset additions, deletions, and transfers. In order to maintain a complete fixed asset listing the Town should develop procedures to facilitate accurate fixed asset reporting.

We recommended that the Town work to develop and implement policies and procedures to insure the proper accounting for all capital assets and that they also work towards maintaining a complete and accurate fixed asset listing by both function and location.

Status – A formal document has yet to be developed.

## **Submission of Payroll Timesheets**

### Prior Comment

Our audit procedures included testing the payroll system. Our tests noted that one hourly employee was not submitting a weekly timesheet and, as a result, there is a possibility that this individual is being overpaid. It is our understanding that all hourly employees are required to submit a signed timesheet to support hours paid.

The submission of a timesheet is an integral internal control over the payroll process. All hourly employees should be required to submit a timesheet that is approved by the employee's direct report. We recommend that the Town enforce its policy that every employee submits a timesheet for each payroll period.

Status – This matter has not been satisfactorily resolved.

## **Turnovers to the Treasurer**

### Prior Comment

As part of our cutoff testing we noted that the building inspector's department submitted a July turnover to the Treasurer totaling approximately \$15,000. In reviewing this transaction it appears that a significant portion of the funds had been received as far back as six months prior to fiscal year end. This may explain why revenue related to building permits and wiring permits is approximately \$13,000 lower than fiscal 2011.

There are several reasons why not turning over receipts in a timely manner is dangerous:

- most departments do not have the proper facilities to protect cash and checks from theft or loss,
- if checks are held by a department for an extended amount of time, there is a greater likelihood that a check may be uncollectible when finally deposited into the bank and,
- cash flow is diminished and investment earnings impaired when receipts are not reported to the Treasurer in a timely manner.

We recommend that turnovers to the Treasurer be made in a timely manner and that they occur at least once per week.

Status – Turnovers are now made timely. This matter is considered resolved.

## Future Government Accounting Standards Board (GASB) Statements for Pension and OPEB

### Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions and Other Postemployment Benefits (OPEB). These new standards will start to phase in during fiscal year 2014 and will substantially impact your financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

The new standards that have been issued and their effective dates are as follows:

- The GASB issued Statement #65, Items Previously Reported as Assets and Liabilities, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27, which is required to be implemented in fiscal year 2015.

The GASB is expected to issue additional standards following #67 & #68 for Pensions, which will similarly affect accounting and financial reporting for OPEB Plans. The GASB is encouraging earlier application of these standards. To briefly summarize these new standards –

- GASB #65 will require reporting each of the financial position elements in a separate section in the statements of financial position. These elements are Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position; where assets + deferred inflows – liabilities – deferred outflows = net position. This new requirement will affect certain aspects of the financial statements currently and they will pave the way for the new reporting requirements of the new Pension and OPEB standards.
- GASB #67 and #68 will substantially change the reporting for pension liabilities and expenses. Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods may continue to be used to determine funding amounts. Employers will report in their financial statements a *net pension liability (asset)* determined annually as of the fiscal year end. *Net pension liability (asset)* equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The Town should expect to record significant pension and OPEB liabilities in the future.

### Recommendation

We recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to meet with your actuaries and financial advisers as more information becomes available. You may also want to consider how and when this information should be communicated to your member communities and other financial statement users.

## **Reserve Fund for Future Payment of Compensated Absences**

### Comment

Massachusetts General Law Chapter 40, Section 13D, became effective July 3, 2012, and provides a city, town, or school district who adopts this section of the law with the ability to establish a reserve fund for the future payment of accrued liabilities for compensated absences due any employee or fulltime officer upon termination of employment.

At June 30, 2013, the Town's estimate of the liability for compensated absences totaled \$76,000.

### Recommendation

We recommend that the Town consider accepting the provisions of this section of the law with the goal of incrementally funding this liability.