

TOWN OF CHILMARK, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014

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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, 2014, 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.

November 10, 2014

TOWN OF CHILMARK, MASSACHUSETTS

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PRIOR YEAR COMMENTS

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 been 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 – The Town is in the process of meeting with department heads to develop and implement formal document.

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;
- Several salary/monthly employees do not submit time sheets. It is our understanding that all employees of the Town are required to submit time sheets.

The submission of a timesheet is an integral internal control over the payroll process and the current Town policies mandate that one be submitted for both hourly and salaried/exempt employees. We believe that all hourly employees should be required to submit a timesheet that is approved by the employee's direct report. With regards to salaried/exempt employees, we recommend that the Town either amend its policy to reflect actual practices or enforce the current policy that requires every employee submit a timesheet for each payroll period.

Status – This matter has not been resolved.

CURRENT YEAR COMMENTS

Departmental Use of Unauthorized Leave

We are of the understanding that an employee of the police department took a sick leave of approximately one month and that there was not enough sick time available in their sick bank. During this period the employee continued to receive a full paycheck. The situation created two issues: 1) how would the excess sick time be paid and accounted for and 2) the time sheets submitted for this person indicated that the person was in fact working; there was no indication that sick time was or should be used.

Subsequent to this event, the Board of Selectmen approved the use of excess sick time accrued by the Chief of Police and another policeman for the specific purpose of supporting and providing a resource to pay the employee who was out on sick leave. To date we are not aware that the actual use/transfer of sick time has occurred.

Recommendation

We believe there needs to be a resolution to matter above. Should the proposed solution be used, the amounts donated by the respective officer(s) should permanently reduce the maximum carryover provided by contract or Town policy and not be allowed to be replenished.

We also recommend that the Town reaffirm with department heads that the function of human resources is the responsibility of the Executive Secretary who is guided by the policies of the Human Resource Board (HRB). As such, no department head should unilaterally make a human resource decision prior to consulting with the Executive Secretary and/or the HRB.

Recording Activity Directly To Fund Balance Accounts

Comment

We noted that certain transfers between capital project and special revenue funds were recorded directly to fund balance control accounts in the general ledger rather than utilizing subsidiary revenue and expenditure ledgers. The accounts impacted were the CPA, Stabilization and Gift funds

This procedure prevents the general ledger from reporting an accurate and complete account of all financial activity. Consequently, these accounts have to be manually analyzed to report all revenues and expenditures in accordance with the GASB 34 and DOR reporting models.

Recommendation

We recommended that all transactions between fund be recorded using the revenue and expenditure subsidiary ledgers and not be recorded directly to fund balance.

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 2015 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 #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2015.
- 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.

As discussed in the previous comment, the GASB has also issued 2 exposure drafts 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 #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.
- Similar standards will be issued related to unfunded OPEB liabilities.

As a result of the new standards, the Town should expect to record significant pension and OPEB liabilities in the future and should begin planning to be prepared to implement the new standards.

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.