

TOWN OF CHILMARK, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2015

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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, 2015, 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 24, 2015

TOWN OF CHILMARK, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2015

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PRIOR YEAR COMMENTS

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

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

Status – This comment has been resolved.

CURRENT YEAR COMMENTS

Submission of Payroll Timesheets

Prior Comment

Our audit procedures included testing the payroll system. During our testing we noted that not all employees submit time sheets even though current Town policies require that that one be submitted for both hourly and salaried/exempt employees. The submission of a timesheet is an integral element of internal control over the payroll process.

We propose the following with regards to this situation:

- For hourly employees we recommend that they be required to submit a timesheet that is approved by the employee's direct supervisor.
- For salaried/exempt employees, we recommend that the Town have this class of employee engage in exception time reporting. Under this method you would create a standard amount of hours worked, and only have them record their time worked if it varies from the predetermined amount or, in the case of sick and vacation time, indicate that such time was used and not worked.

One of the critical elements of accurate time reporting is to quantify the amount of unused sick and vacation time that has accrued to Town employees. At June 30, 2015, this amount totaled \$184,000 and included several employees who had accrued greater than \$7,000 worth of benefits.

Fixed Assets Deletions

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 has policies in place to identify and record fixed asset additions. However, there are no such policies for deletions. In order to maintain a complete fixed asset listing the Town should develop procedures to accurately account for fixed asset deletions.

We recommended that the Town work to develop and implement policies and procedures to insure the proper identification and accounting for capital asset deletions.

Old Receivable Balances

Comment

The Town is carrying receivable balances in motor vehicle excise, vessel excise and personal property taxes that are greater than five years old. Because these receivables cannot be liened the likelihood of collection is significantly diminished.

Additionally, keeping these old receivable balances on the books, and the detailed reports associated with them, can cause the reconciliation process to be more cumbersome and time consuming.

We recommend that the Town determine which receivable balances should be considered uncollectible and be written off after five years.

Future Government Accounting Standards Board (GASB) Statements

Current Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Other Postemployment Benefits (OPEB). These new standards will start to phase in during 2017 and will substantially impact the Town's 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 #74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions, which is required to be implemented in 2017.
- The GASB issued Statement #75, Accounting and Financial Postemployment Benefits Other Than Pensions, which is required to be implemented in 2018.

See below for a brief summary of these new standards:

- GASB #74 and #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in other postemployment benefit liability will be immediately recognized as other postemployment benefit 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. Employers will report in their financial statements a *net other postemployment benefit liability (asset)* determined annually as of the measurement date. *Net other postemployment benefit liability (asset)* equals the total other postemployment benefit liability for the plan net of the plan net position. The other postemployment benefit liability is the actuarial present value of projected benefits attributed to past service. The plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The Town should expect to record significant OPEB liabilities in the future. While these GASB's do not go into effect until 2017 and 2018, we wanted to make the Town aware of the impact that these new standards will have on financial statement reporting and disclosures.