

***TOWN OF IPSWICH, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2015***



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To the Honorable Board of Selectmen  
Town of Ipswich, Massachusetts

In planning and performing our audit of the financial statements of the Town of Ipswich, 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 the Town of Ipswich, Massachusetts' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

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

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 Ipswich, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties

*Powers & Sullivan LLC*

October 28, 2015

TOWN OF IPSWICH, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2015

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## ***Previous Year Comments***

## **Indirect Cost Allocation**

### Prior Comment

The Town's general fund provides services for its enterprise operations and allocates estimated indirect costs to each of the enterprise funds annually. The Town does not have a written internal policy regarding indirect cost allocations to the enterprise funds and the methodology used to charge indirect costs to the enterprise funds is not adequately supported.

The Town has historically charged indirect costs by allocated a portion of the Finance Director, IT Director, Town Manager and Treasurer's salaries to the electric light enterprise fund and a portion of the Facilities Director's salary was allocated to the electric light, water and sewer enterprise funds. Beginning with the 2014 budget, the process was updated to allocate a portion of each of the overhead departments to the electric light, water and sewer enterprise funds (the utilities). The new allocation included a brief description of the service provided to the utilities by each overhead department. However it did not provide justification for the percentages used or provide a complete cost allocation for each of the overhead departments.

Additionally, the Town's indirect charges are based on the budgeted amounts which are estimates. A final analysis of the actual expenses for the year is not reconciled, compared to the budgeted amounts and adjusted if necessary.

This process puts both the Town's general fund and enterprise funds at risk that they are not being charged for their fair share of expenses and it prevents management from knowing the true cost of delivering services.

Indirect costs are the costs for services shared by many programs within an entity. Some activities such as finance, treasury, and facilities do not lend themselves to direct charging. These shared costs should be apportioned using a systematic and rational allocation methodology that is documented in a cost allocation plan and approved each year. Developing a sound cost allocation plan would provide assurance that the general fund and enterprise funds are being charged the appropriate share of costs and it would provide the Town with a sound policy that can be used in the development of future budgets.

### Recommendation

We recommended that the Town implement and document a formal cost allocation plan to allocate shared costs amongst departments. The plan should be reasonable and calculated on a fair and consistent basis. Officials should understand and agree on what indirect costs are appropriated as part of the general fund operating budget and what percentage of these costs should be allocated to the enterprise funds.

Status – Resolved. The Town has developed a cost allocation plan to describe the calculation of indirect costs charged to the enterprise funds. We continue to recommend that management review this plan as part of the annual budget process.

## **Documentation of Payroll Information**

### Prior Comment

The Town's personnel files do not always contain source documentation to support rates of pay for each employee. In the past, the Town has accepted a memo from management as support to increase non-union personnel pay rates. However, the supporting memos were not included in the employee's personnel file or in a central location to support changes in non-union pay rates. The lack of such support increases the Town's risk

that employees' pay rates may be inaccurate and it does not provide adequate support for changes in pay rates.

Recommendation

We recommended the Town establish a list of documents to be included in each personnel file and that support to justify all pay changes either be included in each personnel file or within a separate payroll file, by employee, which will allow all pay rates to be traced back to the original authorization.

Status – Resolved. The Town implemented a personnel status change form which is included in all union employees' files. The Town also creates a sheet with pay rate changes for non-union personnel which is approved and signed by the Town Manager.

**The Documentation and Adoption of Key Financial Policies**

Prior Comment

The Town has not yet finalized key financial policies including a debt policy and a policy for funding long-term liabilities such as other postemployment benefits (OPEB).

A well designed and documented system of financial policies can be a key component in the Town's planning and decision-making with regard to the use of available resources and can provide guidance throughout the budget process. The formal acceptance of financial policies can solidify a community's financial goals and can limit inconsistencies regarding financial decisions. Furthermore, the establishment of formal financial policies is widely recommended by the major bond rating agencies, as they presume that formal policies are most likely to be continued into the future and to transcend changes in the operating environment or personnel.

Recommendation

We recommended that the Town continue the process of establishing and formally adopting a complete set of financial policies that will document the Town's financial goals by completing and adopting a Debt Policy.

Status – Resolved. During 2015, the Town completed its key financial policies by implementing a debt policy which was adopted by the Board of Selectmen.

**Affordable Housing Loan Programs**

Comment

The Town's Planning Department administers an affordable housing loan program. Loans are required to be paid back to the Town unless they meet certain qualifications to be granted loan forgiveness. Loans are reported as an outstanding receivable on the Town's general ledger until paid or forgiven. The Planning Department does not reconcile their detailed outstanding loan records with the balances reported on the Town's general ledger. Additionally, the records maintained by the Planning Department were not complete or adequately supported.

Not reconciling loan accounts or maintaining accurate records can cause a situation where the Town could not collect the total loan amount owed and it increases the risk that the Town is reporting inaccurate balances.

Recommendation

We recommend that the Planning Department review their outstanding loan records, verify that their records are accurately supported and reconcile their records to the Town's general ledger on a regular basis.

Status – Resolved. During 2015, the Finance Department and the Planning Department have been working to identify variances and reconcile the loans to the general ledger and have made significant progress. We continue to recommend that the departments implement a process for reconciling the outstanding loan balances on a regular basis.

## ***Current Year Comment***

## **Voluntary Life Insurance Withholdings**

### Comment

The Town does not have a process to verify that the correct withholdings are taken for employees electing to participate in the voluntary life insurance plan. This is an optional plan where premiums are funded entirely by the employees. Since there is no Town contribution, the monthly invoices received from the provider should reconcile with the amounts withheld from the employees. This reconciliation has not been performed, and the Town has been paying the amount on the invoice, regardless of what is being withheld from the employee. At June 30<sup>th</sup>, the account had a deficit balance of approximately \$14,000. Adjustments made by the department subsequent to year end brought the account to a balance of approximately \$6,400. This deficit balances could indicate that the employee withholdings are not sufficient to cover the premiums being charged or that the withholdings are being recorded to the wrong ledger account.

### Recommendation

We recommend that the Town implement a policy to ensure that the proper premiums are withheld from employees for the voluntary life insurance plan and that the premiums are reconciled to the bills received from the provider.

### Management's Response

This account will be more closely monitored and reconciled by comparing past bills with corresponding withholdings to determine where withholdings and premiums did not coincide; obtaining notification of all premium changes from the insurance company and adjusting corresponding employee withholdings, and by implementing a process to ensure that employment terminations or changes are communicated to the insurance company and adjusted on the bills in a timelier manner.

## ***Informational Comments***

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

### 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 fiscal year 2017 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 #74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which is required to be implemented in 2017.
- The GASB issued Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which is required to be implemented in 2018.

The GASB is encouraging earlier application of these standards. To briefly summarize these new standards –

- GASB #74 and #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in the OPEB liability will be immediately recognized as an 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 OPEB liability (asset)* determined annually as of the fiscal year end. The *net OPEB liability (asset)* equals the total OPEB liability for the OPEB plan net of the OPEB plan's fiduciary net position. The OPEB liability is the actuarial present value of projected benefits attributed to for each plan member individually, from the period when the plan member first provides service under the benefit terms through the period in which the member is assumed to exit service. The OPEB plan's fiduciary 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.

### 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 constituents and other financial statement users.

## **Other Postemployment Benefit Actuarial Valuation**

### Comment

The Town has met the requirements for the implementation of GASB Statement #45, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, and must acknowledge the requirements necessary to stay in compliance with the GASB and obtain the information necessary to complete the Town's annual audit. For financial reporting purposes, an actuarial valuation is required by the Town at least biennially. Consequently, the Town is required to have a new actuarial valuation dated July 1, 2015, in order to remain compliant with

GASB Statement #45 for 2016 and 2017.

Recommendation

We recommend that the Town become familiar with the upcoming reporting requirements and work with the actuary to remain compliant with GASB Statement #45 and to prepare for the upcoming reporting changes.