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June 4, 2015

Board of Selectmen
Town of Pepperell
1 Main Street
Pepperell, MA 01463

Dear Members of the Board:

In planning and performing our audit of the financial statements of the Town of Pepperell, 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 the Town of Pepperell, Massachusetts' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Pepperell, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Pepperell, Massachusetts' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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 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 do not consider the following matters to be significant deficiencies or material weaknesses. However, they are matters we want to communicate to you.

Cash Reconciliation

During our review, for the fiscal year ended June 30, 2014, we would like to note that very significant progress has been made by the new Town Accountant, in performing all of the required general ledger recording, posting, reporting and reconciliation duties. We are extremely pleased with the progress she has made. We reported significant problems, in our prior year audit reports, relating to recording and reconciliation matters, not being properly performed by the prior Town Accountant.

In addition to the significant progress, noted above, relating to the Town Accountant's general ledger (and related) work, we also would like to note that significant progress has been made in the cash reconciliation process, between the Treasurer and the Town accountant over the past year. At June 30, 2014, the Treasurer's cashbook reconciled to the Accountant's general ledger. However, three bank account reconciliations had variances to their respective bank statements, that will require additional analysis. The variances in the payroll account (over \$4,867) and the vendor account (under \$5,018), appear to almost offset each other, and are, most likely, related. In addition, a depository account had a variance of \$22,136 (under) as of June 30.

We recommend that the Treasurer take steps to verify that the vendor and payroll variances are related. If they are related, a bank transfer of \$4,867 should be made out the payroll account and into the vendor account. The transfer should *not* be made in the cash book or the variance will remain. In addition, we recommend that the Treasurer make efforts to determine the reasons for the variance in the depository account.

We want to commend the Treasurer and Town Accountant on the very significant progress they have made, relating to the entire cash reconciliation process during the past year.

Cyber Security

In recent months, several Massachusetts municipalities have had cyber-attacks on their computer systems. The attacks have ranged from annoying intrusions to an attempt to transfer millions of dollars out of a town's bank account. As a result, it has become increasingly important to keep town employees keenly aware of the constant threat of cyber-attacks.

In addition to the risk of financial loss, the Town must be concerned with confidential/sensitive personal information that is on its computer systems including social security numbers, employee benefit and retirement information and tax records.

We recommend that the Town have “ongoing” discussions on how to mitigate the risk of cyber-attacks.

Topics for the discussions should include:

- Policies – There should be documented rules for various situations.
 - Be cautious about opening attachments or downloading files from emails
 - Don't click on, or reply to email or pop-up messages that ask for personal or financial information
 - Don't email personal or financial information
 - Require strong passwords that **must** be changed periodically
- Training – The level of training could vary by department based on perceived need.
- Technical Controls – Do we have the right technology in place (i.e. current anti-virus software and malware remover)?

It appears that the threat of cyber-attacks is a way of life in our age of technology. As the perpetrators of the attacks continue to grow more sophisticated, it is important that the Town remain vigilant in its efforts to protect the Town's assets and the confidential personal information maintained by the Town.

Loans Authorized and Unissued

When Town Meeting approves a loan authorization, the Town Accountant records the vote in the general ledger in accounts titled “Loans Authorized” and “Loans Authorized and Unissued.” In addition, the Treasurer tracks the status of the loan authorizations and reports them annually in the Statement of Indebtedness as required by the Massachusetts Division of Local Services.

Typically, a loan authorization is reduced when a “bond” has been issued or when a Town Meeting vote rescinds the authorization (or a portion of the authorization). However, the authorization should, also, be reduced when a bond anticipation note (BAN) is “paid down” from appropriated funds.

The Town has issued BANs for a fire truck and for an ambulance. The BANs have been “paid down” with appropriated funds over the past few years. We recommend that the Town adjust the loans authorized and loans authorized and unissued accounts in the general ledger and in the statement of indebtedness to reflect the pay down of BAN's from appropriated funds.

GASB Statement #68 – Accounting and Financial Reporting for Pensions

Statement #68 establishes the methodology that must be used by governments to determine the “net pension liability” of the pension plan. The Town’s share of the plan’s net pension liability will be reported in the Town’s Statement of Net Position. Reporting the net pension liability will have a significant impact on the Town’s net position. Currently, the pension system’s unfunded liability is only reported in the Required Supplementary Information section of the Town’s financial statements and does not impact the Town’s Statement of Net Position. **The Town’s share of the Middlesex County Retirement System’s unfunded actuarial accrued liability per the January 1, 2014 valuation is \$12,033,179.** The required implementation date of Statement #68 for the Town is June 30, 2015.

Since the unfunded “other post-employment benefits” liability is similar to the net pension liability, the Governmental Accounting Standards Board has proposed reporting the **entire** OPEB liability in the Statement of Net Position (the GASB has issued an exposure draft relating to the OPEB liability). Currently, the reporting the OPEB liability is being phased in over a thirty year period.

Sewer Betterments - Not Yet Due

In an effort to identify the Sewer Betterment - Not Yet Due (general ledger accounts receivable account), in the proper Uniform Municipal Accounting System (UMAS) “object” code (1440), the Town Accountant made an adjusting journal entry (\$1,735,621), to reduce the old receivable (the general ledger account with the old general ledger account number), and to set up the new general ledger account (with the correct UMAS accounting system account number). When making the entry to recommit the Sewer Betterment receivable to the proper UMAS account, the entry was made for \$2,044,805. The entry made included the betterment principle (\$1,528,782) and the “potential” committed interest (\$516,023).

Only the principal balance should be reflected in the Sewer Betterment - Not Yet Due general ledger account. The interest is committed annually when a portion of the betterment is added to the tax bill. The “potential” interest amount is calculated to determine the anticipated amount of resources that will be available to pay betterment related debt. When people “pay off” their betterment in advance, their share of the potential committed interest will never be billed.

We have recommended an adjusting journal entry to remove from the potential committed interest from the Sewer Betterment - Not Yet Due general ledger accounts receivable account.

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

After you have had an opportunity to consider our findings and recommendations, we shall be pleased to discuss them further with you. We would like to thank you for the cooperation and courtesy extended to us during the course of the engagement.

Very truly yours,

Giusti, Hingston and Company

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