

TOWN OF WELLFLEET, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014

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To the Honorable Board of Selectmen
Town of Wellfleet, Massachusetts:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wellfleet, 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'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

However, during our audit we became aware of several 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 Wellfleet, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Powers & Sullivan - LLC'.

December 2, 2014

TOWN OF WELLFLEET, MASSACHUSETTS

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Previous Year's Comments

DEVELOP AN INFORMATION TECHNOLOGY DISASTER RECOVERY PLAN

Prior Comment

The Town should develop a written contingency plan to ensure the continued operation of data processing in the event of a localized disaster, hardware failure or other event that either causes damage to existing hardware/software or prevents employees from accessing Town facilities.

Recommendation

To avoid severe impairment to the Town's computer operations in the event of a prolonged failure or localized disaster, we recommend that the Town do the following:

- Establish a priority processing plan based on the impact of the delay expected for equipment replacement.
- Investigate alternate facilities to provide sufficient processing time for critical applications.
- Perform periodic test operations at the alternate facility and document the contingency operating procedures.
- Provide for notification of equipment changes at the alternate facility and for updating the plan periodically.

Status – In connection with the County of Barnstable IT Department the Town has developed a disaster recovery plan.

FRAUD RISK ASSESSMENT

Prior Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Town perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Town's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.

- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

Status – no progress has been made on this comment.

PROCEDURE MANUAL

Prior Comment

We noted that while employees' of the financial office are being cross-trained to assist in other areas when necessary, a formal internal procedure manual documenting day-to-day processing and controls is not maintained. Since the Town is limited in the number of employees responsible for its financial functions, we feel that the Town may be at risk in that critical tasks could not be completed due to an extended absence.

Recommendation

We recommend that the Town develop an internal procedures manual. The document should be written in sufficient detail so that a new person unfamiliar with systems and processes would have the ability to complete critical tasks.

Status - The Treasurer's office has successfully completed their procedures manual. However, critical financial departments like the collector and accountant are in the process of addressing this issue.

ALLOCATION OF INDIRECT COSTS TO THE ENTERPRISE FUNDS

Prior Comment

The Town maintains Enterprise funds for the operations of the Marina and the town's water services. The general fund provides services and pays for certain fringe benefits for its enterprise operations. It is sound business policy to complete a cost allocation plan to charge the enterprise funds for their share of these costs. If a properly approved and supported cost allocation plan is not used to calculate these charges, then the Town is at risk that the general fund and enterprise funds are not being charged their fair share of expenses.

The Town has performed a cost allocation plan for the Marina Enterprise Fund, but has not completed a plan for the Water Enterprise Fund. We also noted that the allocation for the Marina does not include a portion of the pension costs for indirect employees, such as the Town Accountant and Town Administrator.

Recommendation

We recommend that the Town complete an indirect cost allocation plan for the Water Enterprise. This allocation should include all costs associated with the operation of the fund, including both direct and indirect expenses. We also recommend that the Town review the Marina Enterprise allocation to ensure that all costs associated with the Marina Enterprise are being appropriately allocated to the fund.

Status - The Town has completed an indirect cost allocation plan for the Water Enterprise fund; however, the transfer of these allocated costs to the general fund has not occurred. We also noted that the Marina Enterprise allocation does not include a portion of the pension costs for indirect employees.

BUDGETED ESTIMATED REVENUES AND OTHER FINANCING SOURCES

Prior Comment

The Town does not utilize the revenue budget function of its automated accounting system. Through this function, the Town can enter the estimated revenues for the year into the accounting system and produce reports that will measure budget versus actual revenue performance. The accounting system serves as the official books and records of the Town and because of this management should be relying on the system to provide the necessary information to make managerial decisions. The Town monitors the departmental expenditures on a monthly basis through the use of the appropriation budget function, however, it is also important to monitor revenues during the year to detect and correct problems on a timely basis.

Strictly relying on analysis conducted outside of the accounting system increases the risk of error or misstatement in reports and management decisions.

Recommendation

We recommend that the Town utilize the revenue budget function of the automated accounting system and include revenue analysis reports as part of the monthly management reports produced from the system.

Status – Partially Resolved – The Town entered the prior year actual revenues into the system as budgeted revenues. This allowed the accountant to compare the current year results to the prior year results, but not to the current year budgets. We noted that the accountant does analyze the monthly activity with budgeted figures; however, the analysis is completed outside the system on manual spreadsheets. Importing the budgeted revenue figures into the accounting system will allow for a more efficient revenue analysis.

MASSACHUSETTS HIGHWAY DEPARTMENT CHAPTER 90 REIMBURSEMENTS

Prior Comment

The Town receives funding from the Massachusetts Highway Department for various roadway projects. Funding for these projects is received on a reimbursement basis. The Town is required to submit invoices to receive reimbursements once expenditures are incurred. We noted that expenditures incurred at the beginning of the year had not been submitted for reimbursement. Failing to submit reimbursements timely reduces the Town's cash position since the funds to finance the project are borrowed from other Town funds. This also increases the Town's risk of losing track of eligible costs and of not identifying ineligible costs in a timely manner.

Recommendation

We recommended that the Town develop procedures to remit timely invoices and requests for reimbursement in relation to these projects in the future.

Status – The Town has enacted the procedures to satisfy the requirements of this recommendation.

Current Year Comments

JOURNAL ENTRY SUPPORT

Comment

Journal entries are generally used to record year-end accruals, correct mistakes and record non-cash transactions. During our audit, we reviewed several of the general ledger journal entries and found that they lacked adequate descriptions and supporting documentation.

Recommendation

We recommend that the Town take steps to ensure that all general ledger journal entries have sufficient support. The Town should consider implementing a standardized procedure for departments to follow when requesting an adjusting entry.

TURNOVERS TO THE TREASURER

Comment

On a periodic basis departments are required to report and deposit with the Treasurer amounts collected at the department site. The frequency of the deposits/reporting is influenced by the volume of transactions at a department. Some can be daily, weekly or dependent on a predefined dollar limit. During our revenue testing we noted that one department was incorrectly reporting beach house revenue while another did not make a timely deposit.

Beach House turnovers are done on a daily basis and report collections for beach stickers, dump stickers, combos and shellfish permits. We noted several instances where the amount reported on the turnover did not agree to the actual deposit. This was mainly due to clerical errors that were ultimately corrected by the Treasurer.

We also noted a turnover of approximately \$30,000 that was remitted by the Building Department that appeared to be an accumulation of amounts received over the course of a month.

Recommendation

Turnovers to the Treasurer should be done on a timely basis and reported accurately. We recommend that proper cash-out procedures be developed to assure that the amount reported agrees to the amount deposited.

We also believe it would be beneficial to develop a policy as to when turnovers should occur for departments who experience low volume activity. For instance, a policy stating that turnovers must be done at least every two weeks or when collections exceed \$5,000 would take care of the issue relating to the safeguarding of cash and assure the timely reporting of cash receipts.