

***TOWN OF WELLFLEET, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2016***

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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, 2016, 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.

March 16, 2017

TOWN OF WELLFLEET, MASSACHUSETTS

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JUNE 30, 2016

CONTENTS

PAGE

<b><i>Previous Year's Comments</i></b> .....	1
Fraud Risk Assessment .....	2
Procedure Manual .....	3
<b><i>Current Year Comment</i></b> .....	4
Payroll Process .....	5
<b><i>Informational Comment</i></b> .....	6
Future government Accounting Standards Board (GASB) Statements .....	7

## ***Previous Year's Comments***

## **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 – Critical financial departments like the collector and accountant are still in the process of addressing this issue.

## ***Current Year Comment***

## **PAYROLL PROCESS**

### Comment

There is a significant amount of record keeping in both the Accountant's Office and Treasurer's office for each payroll and, based on our observations, there appears to be a duplication of effort and/or procedures that are not needed. Specifically, we noted the significant use of multiple excel files to track and verify payroll. Elimination or modification of the current payroll procedures would reduce the burden of work needed to process every payroll.

### Recommendation

We recommend that the current payroll process be analyzed to determine if all current procedures are necessary.



## ***Informational Comment***

## 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.