



**Powers &
Sullivan, LLC**
CPAs AND ADVISORS

TOWN OF WELLFLEET, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2022

To the Honorable Selectboard
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, 2022, 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.

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. As described in the memorandum that accompanies this letter, we identified certain deficiencies in internal control regarding the Town's cash reconciliation process, receivables reconciliation process, as well as general ledger maintenance, that we consider to be a material weaknesses.

Additionally, during our audit we became aware of several matters that we believe are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter also 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.

Powers & Sullivan LLC

November 16, 2023

TOWN OF WELLFLEET, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2022

CONTENTS

PAGE

Material Weaknesses 1

 Cash Reconciliations.....2

 Support for Receivables.....3

 Inadequate Controls Over the General Ledger and Financial Statements.....4

Other Comments.....5

 Maintaining Proper Vendor Records and Database6

 Supporting Documentation for the Town’s Payroll Process.....6

 Automation of Compensated Absences.....7

 Recording Interfund Transfers and the Contribution to the OPEB Trust Fund.....7

 Commingling the Stabilization Funds and the OPEB Trust Fund with Other Funds7

 Accounting for the PEG Cable Access Fund8

 Reserve for Abatements/Overlay.....9

 General Ledger Reporting and Maintenance.....9

 The Use of Purchase Orders10

 General Ledger Journal Entries10

 Capital Asset Account Maintenance11

 Reconciliation of Withholding Balances11

Material Weaknesses

CASH RECONCILIATIONS

Prior Material Weakness Comment

Both the Town Treasurer and Town Accountant play a key role in developing and monitoring a sound internal control structure. These roles are summarized as follows:

- The Treasurer is responsible for establishing and maintaining procedures to 1) properly safeguard the Town's cash and investments and 2) assure that all receipts and disbursements are reported accurately and timely.
- The Town Accountant's office is responsible for establishing and maintaining procedures to assure that 1) all Town receipts and disbursements are properly authorized and recorded in the general ledger accurately and timely 2) all journal entries are properly recorded and documented and 3) all departments are providing detailed and accurate accrual information on a timely basis.

One of the most effective controls to detect and correct errors in a timely manner is a timely process of reconciling bank balances to the cash book in the Treasurer's office and then reconciling those reconciled Treasurer's cash book balances to the Town's general ledger. Performing these monthly reconciliations helps to ensure that errors are detected and corrected timely and that records are complete and accurate.

In 2020, the Town did not perform timely reconciliations and cash recorded on the general ledger at June 30, 2020, had not been reconciled. There were several material cash issues that required adjustments that were not detected and corrected through the Town's internal control process. The corrections were proposed as audit adjustments, which were reflected in the 2020 financial statements. In 2020, there remained an unknown and unreconciled balance to the general ledger totaling \$128,000.

In 2021, the Town did not maintain an adequate cashbook and the Town did not reconcile the cash balances to the general ledger. In December 2022, nearly 18 months subsequent to year end, the Town performed a cash reconciliation from the bank statement balances directly to the general ledger. Not only was the cash reconciliation significantly delayed, but the process also circumvented the controls of maintaining an adequate cash book. Once the reconciliation was performed and known corrections were made, there was a remaining unknown and unreconciled balance to the general ledger totaling \$325,000 in 2021.

Collectively, these instances constituted a material weakness in the Town's internal controls over cash and a material weakness over the Town's cash reconciliation process has been issued since 2020.

Current Status

This matter remains unresolved. All throughout 2022, the Town did not maintain an adequate cashbook and the Town did not reconcile the cash balances to the general ledger. In February 2023, nearly 8 months subsequent to year end, the Town performed a cash reconciliation from the bank statement balances directly to the general ledger. Not only was the cash reconciliation significantly delayed, but the process also circumvented the controls of maintaining an adequate cash book. Once the reconciliation was performed and known corrections were made, there was a remaining unknown and unreconciled balance to the general ledger totaling \$343,000.

Recommendation

We continue to recommend that the Town complete a comprehensive evaluation of the cash management process with the goal of completing full reconciliations of cash on a monthly basis. We also continue to recommend that the Town enhance and update the cash reconciliation policy and formally document any cash reconciliation procedures as well as ensure compliance with any such policy or procedures.

SUPPORT FOR RECEIVABLES

Prior Material Weakness Comment

An integral part of ensuring that the financial statements are accurate and complete is ensuring that all amounts recorded to the Town's balance sheet are properly supported with underlying source documentation. Without support or source documentation, the Town is at risk for maintaining inaccurate balances in the general ledger and financial statements.

In 2020, we noted several accounts receivable balances in which supporting documentation was not provided and/or the supporting documentation that was provided did not substantiate the amounts as reported on the Town's general ledger.

This matter remained unresolved in 2021. In 2021 there were more receivable accounts in which support was not provided and/or the supporting documentation that was provided did not substantiate the amounts as reported to the Town's general ledger. Furthermore, there was a new account on the general ledger noted as undistributed receipts totaling \$125,000, in which substantiating supporting documentation was not provided.

The Town's inability to correct the matter as noted in 2020 and the increased amount of unsupported balances on the Town's general ledger resulted in a matter that was considered pervasive in 2021 and was therefore reported as a material weakness in the Town's internal control over receivables.

Current Status

This matter remains unresolved. In 2022, while the Town did hire a consultant to start to reconcile some of the receivables, the process was not timely and there was still supporting documentation that was provided that did not substantiate the amounts reported to the general ledger. Also, in March 2023, it was noted from auditing procedures that the November 2022 water user charges commitment was not recorded to the general ledger, therefore indicating that there are still numerous receivables that are not being adequately reconciled.

Recommendation

We recommend that the Town conduct a review for all of the Town's outstanding receivables to determine if the funds are still owed to the Town and if there are any receivables not properly recorded on the ledger. We also recommend that the Town retain adequate supporting documentation for all receivables and other assets recorded to the general ledger and that the Town implement adequate procedures to reconcile receivables on a timely basis.

INADEQUATE CONTROLS OVER THE GENERAL LEDGER AND FINANCIAL STATEMENTS

Prior Material Weakness Comment

The accounting office is responsible for proper controls over the general ledger and for preparing financial information used in compiling the financial statements. Other financial offices oversee and contribute to functions impacting the general ledger and financial statements. If there are employees who lack the qualifications and training to fulfill their assigned functions, i.e. if the person responsible for the accounting and reporting function lacks the skills and knowledge to apply GAAP in recording the Town's financial transactions and preparing its financial statements, and if the person responsible for the cash book is unable to apply standard accounting principles or payroll and accrual calculations and process are not understood by the individual(s) performing the tasks, then the Town is at risk for material misstatements.

Throughout the audit of the 2020 financial statements, we had numerous questions about account balances and transactions recorded on the Town's accounting ledgers or on the financial statements where it was difficult to obtain answers or explanations without the assistance of individuals who did not have responsibility over the general ledger during the fiscal year.

This matter was not corrected in 2021, and in 2021 general ledger files were not completed until January 2023, nearly 18 months subsequent to year end, as the Town was continuing to post transactions and corrections to the 2021 general ledger.

The Town's inability to correct the matter as noted in 2020 and the significantly increased delay in completing the Town's general ledger in 2021 resulted in a matter that was considered pervasive in 2021 and was therefore reported as a material weakness in the Town's internal control over the general ledger and the financial statements.

Current Status

This matter remains unresolved. In 2022 the Town's general ledger was not completed until a significant amount of time after year end as journal entries were still being posted for a significant amount of time subsequent to year end.

Recommendation

We recommend that management re-evaluate individuals, and the roles and responsibilities of the accounting and finance departments, to ensure that the books and records of the Town are being maintained in accordance with internal policy and with legally prescribed external requirements to allow for adequate and timely financial reporting.

Other Comments

MAINTAINING PROPER VENDOR RECORDS AND DATABASE

Prior Comment

An important element of the Town's expenditure process should include maintaining proper vendor records and a comprehensive database containing all pertinent information for each vendor used by the Town, including W-9 Forms. Maintaining complete and accurate W-9 forms helps the Town prepare the required 1099 Tax Forms for independent contractor business that have been paid more than \$600.

The Town has not properly maintained vendor records including the collection of W-9 forms. Deficiencies in this process increase the risk that the Town will not prepare and file the appropriate 1099 Forms as required.

Current Status

This matter is resolved. The Town's process in maintaining adequate W-9 forms for each vendor improved. The Town was able to provide nearly all of the W-9 forms for vendors that were selected for testing.

SUPPORTING DOCUMENTATION FOR THE TOWN'S PAYROLL PROCESS

Prior Comment

Processing payroll is an integral part of the Town's day to day operations, and therefore should have strong internal controls. Payroll processed for each pay period should be adequately supported by proof of payrates, which should include proper signatory authority prior to the disbursement of funds.

In performing a review of the Town's internal control process for payroll operations, we were unable to verify some of the employee's payrate as proof of payrate documentation was not provided for all of the employees selected for testing. Maintaining adequate records of payrates agreed upon by both the employee and Town Management is an integral part of maintaining a strong internal control system over the Town's payroll process.

Current Status

The matter remains unresolved. The Town was unable to provide adequate payrate support for some of the employees that were selected for testing.

Recommendation

We continue to recommend the Town establish and document formal internal control policies over the Town's payroll function, and to implement procedures to ensure compliance with such policies. We also recommend that as part of that internal control process, the Town establish the use of standardized forms to track payrates earned for each employee. These forms should be completed at each payrate change and should require the signature of the employee and their supervisor and/or management. A full review of current bargaining unit contracts is also recommended to ensure payrates and terms reflect the agreements.

AUTOMATION OF COMPENSATED ABSENCES

Prior Comment

The Town does not have a centralized electronic system to track and accrue sick, vacation, and compensatory time. Compensated absences are specifically regulated by union contracts, and a decentralized and non-automated system increases the risk that time earned and taken will not be recorded properly, thus increasing the liability for the Town. Additionally, the records surrounding compensated absences displayed a variance from bargaining unit contracts.

Since the Town utilizes Harpers for the Town's payroll function, it is possible to record and monitor the compensated absences liability through the payroll system. This would provide greater internal control over accumulated sick and vacation time.

Current Status

This matter remains unresolved. The Town has not implemented an automated process of tracking sick, vacation and compensatory time.

Recommendation

We continue to recommend that the Town perform a detailed review of the accrued sick, vacation, and compensatory time for each employee and department to ensure that time earned and previously tracked by the non-automated system is accurate and reflects bargaining agreement terms. We then recommend that the Town implement an automated system to properly monitor compensated absences.

RECORDING INTERFUND TRANSFERS AND THE CONTRIBUTION TO THE OPEB TRUST FUND

Prior Comment

The Town did not reconcile budgeted transfers to the actual transfers recorded on the ledger. A lack of reconciliation procedures surrounding the Town's budgeted transfers increases the risk that those transfers, as approved by Town Meeting, are not appropriately made in the proper period.

Current Status

This matter is resolved. In 2022, transfers were appropriately recorded.

COMMINGLING THE STABILIZATION FUNDS AND OPEB TRUST FUND WITH OTHER FUNDS

Prior Comment

GASB Statement #74 establishes accounting and financial reporting requirements for governments whose employees are provided with Other Postemployment Benefits (OPEB). For defined benefit OPEB plans that are administered through trusts that meet specified criteria as described in GASB Statement #74, the trust is required to be presented in a statement of fiduciary net position and a statement of changes in fiduciary net position.

Massachusetts General Law (MGL) Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. Stabilization funds are reported as part of the General Fund under Generally Accepted Accounting Principles.

In 2020, the Town converted to a new general ledger system, and during the conversion, set up separate funds to account for the Town's OPEB trust fund, and the Town's general stabilization fund. Throughout 2020 and 2021, the balances and activity in each of these funds were posted to a different fund, which was used to account for the Town's expendable trust funds, rather than the funds specifically set up for these purposes. We proposed an adjustment to reclassify the balances and activity for both the OPEB trust fund and the stabilization fund for separate reporting as a fiduciary fund and component of the general fund, respectively.

Current Status

This matter is resolved. The Town recorded the balances and activity for both the OPEB trust fund and the stabilization fund in separate funds on the general ledger for separate reporting as a fiduciary fund and component of the general fund, respectively.

ACCOUNTING FOR THE PEG CABLE ACCESS FUND

Prior Comment

The Massachusetts Department of Revenue (DOR) Informational Guideline Release No. 16-102 explains to local officials the procedures and requirements for accounting for cable television public, educational and governmental (PEG) activities.

The Release stipulates that the Town should either:

- Designate cable PEG access operations or services in an enterprise fund and separately account for all franchise fees and other revenues derived from enterprise activities in the same manner as other enterprise funds or;
- The Town may reserve the franchise fees and other cable related revenues for appropriation to support PEG access services; in a receipts reserved for appropriation fund.

In reviewing the Town's special revenue funds, we noted that PEG cable access activity was reported in another special revenue fund, and was not included as a receipts reserved for appropriation or an enterprise fund as stipulated by the DOR.

Current Status

This matter remains unresolved. There were no changes to how the PEG cable access fund was recorded in the Town's general ledger.

Recommendation

We continue to recommend that the PEG cable access operations are recorded in compliance with DOR guidelines.

RESERVE FOR ABATEMENTS/OVERLAY

Prior Comment

The Town Accountant's Office and the Assessor's Office are not managing and reconciling the Reserve for Abatement accounts. The Town is required to maintain an overlay balance that exceeds the potential liability for abatements. Without an accurate reconciliation between the general ledger and the Assessor's records the Board of Assessors could be making financial decisions for the Town based on inaccurate information.

Current Status

This matter remains unresolved. In 2022, a reconciliation was not provided, and the real estate and personal property tax receivables were out of balance to the offsetting deferred revenue and reserve for abatements by \$110,000.

Recommendation

In order to maintain the proper balances of overlay and to ensure that financial decisions are being made based on accurate information, we continue to recommend that the two departments that are responsible for this actively work together to compare balances and activities, by year, and that these amounts are reconciled on a timely basis along with all other amounts recorded on the general ledger.

GENERAL LEDGER REPORTING AND MAINTENANCE

Prior Comment

Part of the Town's accounting function is to ensure that the general ledger is adequately structured and managed in a way that allows for proper tracking of specific funding sources against any related and legal expenditures. This includes the use of funds or individual project codes that can identify specific funding sources and individual balances.

In 2020, the Town converted their general ledger system and it was constructed in a way that comingled funds and projects which hindered the ability to calculate and reconcile into beginning balance by project or fund from the previous year. This also caused the inability to determine if capital projects and grants funds were properly closed out at the end of the project or grant period. Comingling projects also increases the risk that funding sources will not be applied to proper expenditures.

Current Status

This matter is partially resolved. The Town set up a separate grant fund to account for the significant funding received from the State for the Town's Harbor Maintenance Dredging capital project, however, the Town continues to excessively comingle other funds and projects, which hinders the ability to calculate and reconcile into beginning balance by project or fund from the previous year.

Furthermore, the Town records capital project activity for the water enterprise fund in a capital project fund that is comingled with other governmental activities' capital projects. As a result, there is a process required to extract the capital activity out of the comingled capital projects fund to present the appropriate balances and activity for the water enterprise fund.

Recommendation

We continue to recommend that the Town review each project within the accounting structure across each of the Town's funds to ensure that each present an accurate balance. We then recommend that the Town implement policies and procedures to ensure that transactions posted to the ledger are posted to the proper activity within the fund to accumulate to a proper ending balance for a specific project or fund.

THE USE OF PURCHASE ORDERS

Prior Comment

A proper purchase order system allows for disbursements to be subject to the internal controls of the Town prior to the purchase of goods or services. Purchase orders also allow management to have control over the expenditure process and provides more accurate and useful financial information by allowing management to monitor outstanding commitments against Town funds.

In 2020 and 2021, we noted that the Town was not properly completing purchase orders prior to the purchase of goods and services.

Current Status

This matter remains unresolved. The Town did not provide purchase orders to support transactions that were selected for testing

Recommendation

We continue to recommend that the Town implement a process to utilize purchase orders to strengthen controls over the expenditure process as well as controls over the year-end encumbrance process.

GENERAL LEDGER JOURNAL ENTRIES

Prior Comment

Manual adjusting journal entries are generally used to record year-end accruals, correct mispostings, and to record certain non-cash transactions. During our audit, we noted that there were an extremely large number of manual adjusting entries posted to the general ledger during the year. Additionally, we noted that some of the journal entries did not contain sufficient supporting documentation.

The accounting system used by the Town, along with most systems, is designed to minimize the need for any manual journal entries. Recording the transaction properly and charging it to the correct account at its inception is the most efficient and accurate means of recording the Town's financial activity. For example, when a receipt is received it is entered into the system and credited to the correct revenue account/fund. When employees or vendors are paid the expenditure is to be charged to the account/fund that incurs the expense. The only need for a journal entry is to correct errors, which should be minimal. If there is a need for a significant number of corrections to the original transactions, there is a weakness in the design of the accounting process. If the Town finds that journal entries are needed frequently, an immediate review of the policies and procedures surrounding the transaction type in question should be performed to isolate where the deviation from prescribed policies and procedures is occurring and what the correction should be.

Current Status

This matter remains unresolved. Throughout 2022 the Town continued to post an excessive amount of manual adjusting journal entries. Furthermore, a considerable amount of correcting journal entries were required over a significant amount of time subsequent to year end.

Recommendation

We continue to recommend that the Town work to identify the underlying issues resulting in the need for such an abundance of manual adjusting entries. Further, we recommend that procedures be implemented to properly train non-financial staff members charged with preparing source data so that errors and mispostings are minimized from the inception of each transaction. We also continue to recommend that the Town maintain proper supporting documentation for all manual journal entries made throughout the year.

CAPITAL ASSET ACCOUNT MAINTENANCE

Prior Comment

To comply with GASB Statement #34 reporting requirements, the Town had previously implemented a software system to maintain a list of the Town's capital assets as well as account for additions, disposals, and depreciation on capital assets each year. Over time, the capital asset system has not been monitored or properly tracked for additions and disposals.

Current Status

This matter is partially resolved. The Town appropriately update the software system for additions to capital assets and the system appropriately calculated depreciation on the Town's assets. However, the Town did not perform a full review of the capital asset listing to determine which assets are no longer in service and therefore should be disposed of. In 2022, there was only one capital asset disposition. In most cases assets no longer in service are fully depreciated and therefore the Town's net position is not in error at year-end. However, there is a risk that the underlying gross values are overstated.

Recommendation

We continue to recommend that the Town perform a full review of the capital assets listed in the capital asset software system to ensure that the assets listed are still in service. If assets listed are not in service, we recommend the Town dispose of the asset in the capital asset system.

RECONCILIATION OF WITHHOLDING BALANCES

Prior Comment

The balances in the Town's payroll withholding liability accounts at year end should approximate the amount that will be paid in the subsequent month to the appropriate vendors. At the end of fiscal year 2021, the Town had deficit balances in the withholdings accounts totaling approximately \$114,000.

Current Status

This comment has been partially resolved. At the end of fiscal year 2022, the balances have changed significantly and the combined balances are in a credit (positive balance) of over \$400,000. This is an indication that the accounts are now overstated. We were informed that there are amounts at year end owed to Cape Cod Municipal Health Group that have not been paid.

During fiscal year 2023, the Town has implemented a process for reconciling the insurance bills and the withholding amounts and making corrections to each as necessary. The Town has not yet implemented a process to reconcile to the balances carried on the general ledger. Additionally, the Town has changed the accounts on the ledger that are used to account for payroll withholdings and the old accounts, that are no longer being used, have not been closed out or reconciled.

Not having a process to verify that the accounts on the general ledger represent year end withholdings that have been paid out in the subsequent fiscal year indicates that the Town's financial records could be incorrect and that the Town may not have withheld or paid the correct amounts.

Recommendation

We recommend that the Town implement procedures to reconcile the payroll withholding balances on the general ledger to the subsequent payments on a monthly basis to ensure that the appropriate amounts are being withheld and paid.