

***TOWN OF WELLFLEET, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2015***

# Powers & Sullivan, LLC

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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, 2015, 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 &amp; Sullivan, LLC'.

October 23, 2015

TOWN OF WELLFLEET, MASSACHUSETTS

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## ***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 – As we noted in the prior year, the Treasurer's office has successfully completed their procedures manual. However, critical financial departments like the collector and accountant are still 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 now includes a portion of the pension costs for indirect employees; therefore, the Town has satisfied the Marina Enterprise requirements of this recommendation.

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

## **JOURNAL ENTRY SUPPORT**

### Prior 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.

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

## **TURNOVERS TO THE TREASURER**

### Prior 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.

Status – The Town has made improvements in the timeliness of departmental turnovers to the Treasurer. However, we still noted instances where departments held receipts up to a month prior to completing the turnover. We continue to recommend that the Town develop a policy that all departments turnover their receipts at least every two weeks.

## ***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.