

# Sullivan, Powers & Co., P.C.

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September 6, 2024

Selectboard  
Town of Waterford, Vermont  
P.O. Box 56  
Lower Waterford, VT 05848-0056

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Waterford, Vermont as of and for the year ended December 31, 2023 and have issued our report thereon dated September 6, 2024. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the Town of Waterford, Vermont's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 of Waterford, Vermont's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Waterford, Vermont's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed as follows, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 Town of Waterford, Vermont's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations as Items 2023-001 through 2023-005 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations as Item 2023-006 to be a significant deficiency.

We have also noted other matters during our audit as indicated in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations that are opportunities for strengthening internal control and operating efficiency. We have discussed the recommendations with the staff during the course of fieldwork and some of the recommendations may have already been implemented.

This communication is intended solely for the information and use of management, the Selectboard, and others within the Town of Waterford, Vermont, and is not intended to be, and should not be, used by anyone other than these specified parties. If you would like to discuss any of the recommendations further, please feel free to contact us.

We would like to take this opportunity to thank the staff of the Town of Waterford, Vermont for their assistance and cooperativeness throughout our audit. It has been a pleasure working with you.

Respectfully submitted,

*Sullivan, Powers & Co.*

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Deficiencies in Internal Control:

Material Weaknesses:

2023-001 Segregation of Duties – Davis Memorial Library Fund

*Criteria:*

An important factor in developing good internal control procedures is to divide responsibilities so that no individual can both perpetrate and conceal errors or irregularities. One of the most common division of duties is the division between the check signing and bank reconciliation functions.

*Condition:*

In the Town, the same person that reconciles the Davies Memorial Library Fund bank accounts also collects cash, posts to the journals, makes deposits and has check signing authority. Each of those duties are considered incompatible functions for accounting control purposes.

*Cause:*

The limited staff available provides little opportunity to achieve an optimum separation of duties and responsibilities.

*Effect:*

The Town has inadvertently made its assets susceptible to misappropriation.

*Recommendation:*

We recommend that someone other than a check signer prepare or review in detail the reconciliations of the Davies Memorial Library Fund bank accounts monthly.

2023-002 Transfer Station Revenues

*Criteria:*

Internal controls over transfer station revenues should be in place so that no individual can both perpetrate and conceal errors or irregularities.

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*Condition:*

The Town does not have adequate internal controls in place over transfer station revenues. Therefore, the Town cannot be sure that all of the cash collected is being handed over to them by the transfer station employees.

*Cause:*

Unknown.

*Effect:*

The collections at the transfer station are subject to misappropriation.

*Recommendation:*

Our primary recommendation is that the Town consider selling transfer station coupons off-site at the Town Treasurer's office and/or at local businesses. If sales take place at the transfer station, we recommend that the Town implement controls to ensure that all of the cash collected is being handed over to them by the transfer station employees.

2023-003 Due from School District

*Criteria:*

Internal controls should be in place to record and provide review of the calculation of the amount due from the School District for education taxes at year-end.

*Condition:*

The Town did not record the amount due from the School District at year-end for education taxes overpaid.

*Cause:*

Unknown.

*Effect:*

The Town's General Fund fund balance was understated.

*Recommendation:*

We recommend that the Town implement controls to record and review the calculation of the amount due from the School District at year-end.

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2023-004 Due To/From Accounts

*Criteria:*

Internal controls should be in place to ensure that due to/from other funds accounts are in balance and reflect the correct amounts during the year.

*Condition:*

Due to/from other funds account balances were incorrect.

*Cause:*

Unknown.

*Effect:*

Adjustments had to be made to the Town's due to/from other funds accounts.

*Recommendation:*

We recommend that the Town reconcile their due to/from other funds accounts at least quarterly.

2023-005 Fund Balance Entries

*Criteria:*

Internal controls should be in place to ensure that all revenues and expenses are recorded correctly. Separate revenue and expense accounts should be utilized to record the Town's revenues and expenses. Fund balances should only be posted to in the event of a correction of an error or change in accounting principle.

*Condition:*

The Town posted current year activity to fund balance rather than to separate revenue and expense accounts.

*Cause:*

Unknown.

*Effect:*

Adjustments were required to correct the fund balance, revenues and expenses.

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*Recommendation:*

We recommend that the Town implement controls to ensure that all revenues and expenses are recorded correctly.

Significant Deficiencies:

2023-006 Cash Cutoff

*Criteria:*

Internal controls should be in place such that cash transactions are recorded in the period when they actually occur.

*Condition:*

The Town did not have adequate internal controls over the cutoff of transactions for cash. As a result, the last check run for the 2022 year was posted to the general ledger in the 2023 year.

*Cause:*

Unknown.

*Effect:*

The Town's current year cash disbursements were overstated.

*Recommendation:*

We recommend the Town implement controls to ensure cash transactions are recorded in the period when they actually occur.

Other Recommendations:

Weekly Payroll

The Town currently pays all of their employees weekly. The Town could save time and money if they switched to a bi-weekly or semi-monthly method of paying employees.

We recommend the Town consider switching to a different frequency of paying employees to save time and money. The Town may need to consider allowing advances to employees in order to prevent cash flow difficulties during the transition.

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Accounting and Procedures Manual

The Town does not have an accounting and procedures manual in place. This manual should define duties and responsibilities for current personnel so as to prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. It will also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees.

We recommend that the Town develop this document for all accounting procedures as soon as possible. Each individual should document their duties and how to perform them. The manual should include examples of forms with descriptions of their use. Once developed, only changes in procedures or forms will require changes in the manual.

We believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

We also recommend that the Town make sure that there are no jobs related to accounting and finance that only one person knows how to perform. The procedures manual would also be useful in determining whether this situation exists.

Fraud Policy

The Town does not have a fraud policy in place. A fraud policy outlines the Town's position on fraudulent activities and dishonest conduct and sets out procedures for employees to report suspected fraud or misconduct to the appropriate personnel within the Town. This policy should further outline the responsibilities of different positions within the Town in regards to reporting and investigating these claims. It should also discuss the actions that will be taken to investigate the claim and the protection that will be afforded to the person making the claim against retaliation from the accused.

We recommend that the Town implement a fraud policy.

Education Billing Fee Retained

The Town does not budget for the school tax administration fee. This fee is for the collection and remittance of school taxes and is not part of the Town's property tax budget.

We recommend that the Town budget for the school tax administration fee retained annually.

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Documentation of Internal Control System

A solid understanding of internal control is essential to a well-run organization. An organization must continually assess their internal control systems to evaluate financial health, ensure accurate financial reporting and compliance with laws and regulations. As part of this process, management should formally document its control systems.

This will provide management with an understanding of the systems related to financial reporting and the controls over relevant assertions related to all significant accounts, disclosures in the financial statements, antifraud programs and controls over selection and application of accounting policies.

We recommend that the Town perform a complete evaluation and documentation of the internal control process. This should break out the internal control process into the following five areas:

1. Control Environment – Sets the tone of an organization and is the foundation for all other components.
2. Risk Assessment – Identification and analysis of relevant risks to achieve its objectives, forming a basis for how risks should be managed.
3. Control Activities – The policies and procedures that help ensure management directives are carried out.
4. Information and Communication – The identification, capture and exchange of information in a form and timeframe that enables people to carry out their responsibilities.
5. Monitoring – The process that assesses the quality of internal control performance over time.

Fraud Risk Assessment

The Town has not performed a fraud risk assessment. A fraud risk assessment is important because it identifies the Town's vulnerabilities to fraudulent activities and whether those vulnerabilities could result in material misstatement of the financial statements. The fraud risk assessment would also identify processes, controls, and other procedures used to mitigate the identified fraud risks.

We recommend that the Town perform a fraud risk assessment to reduce the possibility of fraudulent activities.

Cash Accounts

The Town maintains numerous cash accounts which are all designated for different items. This requires considerable work for the accounting and recordkeeping staff.

We recommend that the Town consider combining the accounts into one account with the accounting records separating these different balances.



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Authorization of Non-Cash Related General Journal Entries

The Town does not have a policy in place to require authorization or review of non-cash related adjustments to the books of original entry. All journal entries should be approved by an authorized individual so that controls over the original entries are not circumvented.

We recommend that the Town enact a policy that requires appropriate officials to authorize and review all general journal entries so as not to circumvent the original approval process.

Budgeting for Delinquent Taxes

The Town budgets current taxes at gross, which is the tax rate multiplied by the grand list. The Town also budgets an amount for delinquent taxes. This leads to an over-estimation of tax revenue due to delinquent taxes being counted twice. When current taxes are budgeted at gross and not reduced by those taxes expected to go delinquent, delinquent taxes are accounted for both in the current tax budget and in the delinquent tax budget.

We recommend that the Town revise their budgeting process to reflect a more accurate picture of tax revenue.

Budgeting for the Overpayment of Education Taxes

The Town budgets an amount annually for funds returned from the School District as a result of the overpayment of education taxes in the previous year. This leads to an over-estimation of other revenue as the collection and remittance of education taxes are a pass-through to the Town.

We recommend that the Town discontinue budgeting for the education taxes returned from the School District as a result of the overpayment of education taxes in the previous year.

Reserve Funds

The Town has multiple reserve funds that have balances being carried forward from prior years. The Town does not know where these balances originated from and if these balances have spending restrictions.

We recommend that the Town research these balances to identify the nature of the funding and any restrictions on the funding to ensure these funds are properly utilized in the future.

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General Fund Bank Reconciliation

The monthly General Fund bank reconciliations maintained a continuing immaterial variance to the general ledger throughout the year.

We recommend that the Town ensure the monthly bank reconciliations agree to the general ledger.

Budgeting for Appropriations

The Town includes special agency appropriations within their General Fund budget, however, at Town meeting these appropriations are also voted on individually as separate articles. This results in voting on the appropriations multiple times.

If appropriations will continue to be voted on individually as separate articles at Town Meeting, we recommend the Town exclude the special agency appropriations from their General Fund budget.

Procurement Policy

The Town's procurement policy has not been updated to comply with the Uniform Guidance.

We recommend that the Town update its procurement policy to be in compliance with the Uniform Guidance.

Uniform Guidance Policies

Sections of the Uniform Guidance require non-federal entities that receive federal awards to have certain written policies and procedures or standards of conduct. Examples of these requirements are listed below:

- Conflict of Interest Policy
- Financial Management Policy
- Payment - Cash Management - Drawdowns and Reimbursement Requests Policies
- Uniform Guidance Procurement Policy
- Compensation Policy
- Relocation Costs of Employees Policies
- Travel Cost Policy

We recommend that all policies be reviewed and amended to include the requirements outlined in the Uniform Guidance.

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Documentation of Approval of Invoices and Account Coding

There is no policy in place requiring the documentation of approval of invoices and account coding. This is important to indicate that the department heads have verified that the goods or services have been received and that the invoices are appropriate to pay and that they are coded to the proper general ledger account.

We recommend the Town document approval and account coding on all invoices.

Uninsured Cash

The Town's investment and banking policy requires collateralization using obligations fully guaranteed by the full faith and credit of a Vermont municipality, the State of Vermont, and/or the United States Government, or United States Government Agencies. The Town's cash balances in excess of federally insured levels were uninsured and uncollateralized.

We recommend the Town adhere to their investment and banking policy to ensure that all cash and certificates of deposit in excess of federally insured levels are covered by collateralization agreements.

Records Restoration Fund

State Statutes require a minimum of \$4.00 per page from the per page recording fees be recorded in a special revenue fund unless the Town Clerk annually certifies that the Town has sufficient dedicated reserve funds to provide for the restoration, preservation, digitization, storage, and conservation of municipal records.

We recommend the Town record a portion of the recording fees that follows State Statutes in a special revenue fund or annually certify the Town has sufficient dedicated reserve funds to provide for the restoration, preservation, digitization, storage, and conservation of municipal records.

Davies Memorial Library Fund

The Town's Library Trustees has designated a separate Treasurer who controls and maintains cash and investment accounts for the Davies Memorial Library Fund. It is our understanding that all cash accounts should be under the control of the Town Treasurer. The Town Treasurer could appoint the Library Treasurer as the Assistant Treasurer.

We recommend that the Town verify whether all accounts should be under the control of the Town Treasurer. If so, the Trustees should turn over the money to the Town Treasurer. The Town Treasurer could then appoint the Library Treasurer as the Assistant Treasurer if she chooses to.

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Budgeting for Miscellaneous Revenue

The Town budgeted \$57,314 for miscellaneous revenue. A budget is used mainly as a planning tool to compare revenue and expenditures to amounts estimated. With a detailed budget in place, it is much easier to analyze data from previous years and revise estimates for the upcoming year.

We recommend that the Town provide more detailed estimated revenue accounts as part of their budgeting process in the future.

Davies Memorial Library Payroll Reimbursement

The Davies Memorial Library Fund reimburses the General Fund for payroll expenses incurred by the Library staff on an annual basis. During the year ending December 31, 2023, the reimbursement did not agree to the wages and related payroll taxes incurred in the General Fund.

We recommend that the Town review the calculation of payroll expenses incurred by the Library staff to ensure the reimbursement by the Davies Memorial Library Fund is accurate.