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January 31, 2022

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, 2020 and have issued our report thereon dated January 31, 2022. 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 other deficiencies that we consider to be significant deficiencies.

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 2020-01 through 2020-03 to be material weaknesses.

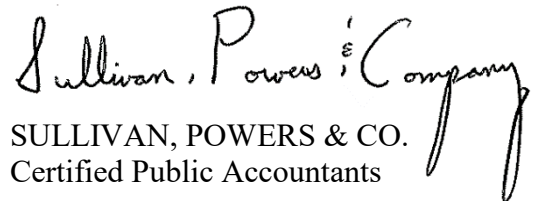
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations as Items 2020-04 through 2020-07 to be significant deficiencies.

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.
Certified Public Accountants

TOWN OF WATERFORD, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL
AND OTHER RECOMMENDATIONS
DECEMBER 31, 2020

Deficiencies in Internal Control:

Material Weaknesses:

2020-01 Reconciliation of Bank Statements

Criteria:

Internal controls should be in place to ensure that all bank accounts are reconciled to the general ledger on a monthly basis.

Condition:

The Town does not have controls in place to ensure that all bank accounts are being reconciled to the general ledger. This resulted in variances that were required to be researched and adjusted.

Cause:

Unknown.

Effect:

The Town's financial records may not report the true cash position of the Town at a given date.

Recommendation:

We recommend that the bank accounts be reconciled to the general ledger on a monthly basis so that errors can be detected and corrected.

2020-02 Property Tax Reconciliation

Criteria:

Internal controls should be in place to ensure property taxes have been reconciled to the general ledger at year-end.

Condition:

The Town did not have controls in place to ensure property taxes were reconciled to the general ledger at year-end.

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Cause:

Unknown.

Effect:

The Town's property tax account balances were not reconciled which resulted in various adjustments to correct account balances.

Recommendation:

We recommend that the Town implement controls to ensure property taxes are reconciled to the general ledger at year-end.

2020-03 Budgeted Transfers

Criteria:

Internal controls should be in place to review all budgeted transfers to determine whether intended transfers have been made.

Condition:

The budgeted transfer from the Reappraisal Fund to the General Fund was not made during the year as intended.

Cause:

Unknown.

Effect:

The Town's General Fund fund balance was understated and the Reappraisal Fund fund balance was overstated.

Recommendation:

We recommend that the Town review all budgeted transfers and verify all intended transfers are made.

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Significant Deficiencies:

2020-04 Reconciliation of HRA Account Activity

Criteria:

Internal controls should be in place to ensure that the HRA Account activity is reconciled to the general ledger on a monthly basis.

Condition:

The Town does not have controls in place to ensure that the HRA Account activity is being reconciled to the general ledger. This resulted in variances that were required to be researched and adjusted.

Cause:

Unknown.

Effect:

Adjustments were required to correct the deposits with insurance company and related account balances.

Recommendation:

We recommend that the Town implement controls to ensure that the HRA account activity is reconciled to the general ledger on a monthly basis so that errors can be detected and corrected.

2020-05 Authorization of General Journal Entries

Criteria:

Internal controls should be in place that requires appropriate officials to authorize and review all adjustments to the books of original entry.

Condition:

The Town has a policy in place to require authorization of adjustments to the books of original entry, however this policy was not consistently followed during the year.

Cause:

Unknown.

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Effect:

This deficiency in the internal control structure could allow other working control policies to be circumvented.

Recommendation:

We recommend that the Town comply with the policy that requires appropriate officials to authorize all general journal entries so as not to circumvent the original approval process.

2020-06 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.

Condition:

Internal controls over issuing pre-numbered receipts, reconciling to the general ledger and monitoring the proper recording of cash receipts are inadequately designed. There are inadequate controls in place to detect and prevent fraudulent activities related to the cash collected at the Transfer Station. In addition, receipts are not mandated to be given to customers.

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 or at local businesses on weekends. If sales take place at the transfer station, a cash register should be used and a reconciliation needs to be done to compare the cash receipts to the actual cash collected. We recommend that the Town require pre-numbered cash receipts or the receipt from a cash register be issued to all customers.

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2020-07 Approval of Invoices

Criteria:

Internal Controls should be in place to ensure that all invoices are approved by the department heads or Selectboard Chair.

Condition:

It is the policy of the Town that the department heads or Selectboard Chair approve all invoices before they are paid. There were several instances where invoices were paid without the proper approval.

Cause:

Unknown.

Effect:

The Town has expended funds without proper approval.

Recommendation:

We recommend the Town document approval on all invoices.

Other Recommendations:

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.

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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.

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 that 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 a complete accounting and procedures manual in place although the Treasurer has started the process. 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 complete 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.

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.