



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

***TOWN OF MARBLEHEAD, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2023***

To the Honorable Select Board  
Town of Marblehead, 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 Marblehead, Massachusetts (Town) as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting as a basis for designing our auditing 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'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 matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning 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, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Powers & Sullivan LLC*

March 20, 2024

TOWN OF MARBLEHEAD, MASSACHUSETTS

MANAGEMENT LETTER

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## ***Current Year Comments***

## **Updating Worker Compensation Balances**

### Current Year Comment

During our audit of the financial statements, noted that the worker compensation balances have not been updated in the accounting records since 2021. This lapse in record-keeping could potentially lead to discrepancies in the financial reporting and may not provide an accurate picture of the organization's current liabilities.

Timely and accurate updating of the worker compensation balances is crucial for maintaining reliable financial records and ensuring that the organization's financial obligations are clearly reflected in the financial statements. It is important to periodically reconcile and update these balances to capture all changes, including any new claims, adjustments, payments made, and changes in estimates of existing claims.

Addressing this issue will enhance the credibility of the financial statements and fortify the internal controls related to liability management.

### Recommendation

We recommend the following:

- Conduct a thorough review of all worker compensation claims and their corresponding balances since the last update in 2021.
- Update the accounting records to reflect all changes in worker compensation balances, including any new claims, settlements, and adjustments to existing claims.
- Implement a routine process for the regular review and update of the worker compensation balances, ideally on a quarterly basis, to ensure that the financial statements accurately reflect the organization's liabilities.
- Ensure that the finance department liaises with the human resources department and any external worker compensation service providers to obtain all necessary information for updating the balances.

## **Internal Controls for Capital Asset Deletions**

### Current Year Comment

During our evaluation of the Town's internal control processes, we noted an absence of internal control procedures to identify deletions of capital assets. The effective tracking and recording of capital asset disposals and deletions is crucial for maintaining accurate financial records and safeguarding the Town's assets. The lack of a control process to track deletions can lead to discrepancies between the physical inventory of assets and the accounting records. This can result in inaccuracies in the financial statements and potentially diminish the reliability of financial information.

### Recommendation

We recommend that the Town Establish a formal internal control process to monitor and record capital asset disposals and deletions. This includes requiring reporting and documentation of all capital asset deletions to ensure proper oversight and training relevant staff on the importance of tracking capital asset deletions and on the procedures for doing so accurately.

Implementing these recommendations will help enhance the Town's ability to maintain accurate records of its capital assets and strengthen the overall integrity of its internal controls.

## **Improve Oversight Over Payroll Withholding Balances**

### Current Year Comment

In the current year we noted that the Town is maintaining negative balances in its withholding accounts. Additionally, it appears that these accounts are not being reconciled on a monthly basis as would be considered best practice in financial management. The presence of negative balances in withholding accounts may indicate issues with cash flow management or potential inaccuracies in payroll processing. Failure to reconcile these accounts regularly increases the risk of errors persisting in the records, which could lead to significant discrepancies over time.

### Recommendation

We recommend that the Town perform monthly analysis, reconciliation and adjustment of the withholding accounts to resolve any negative balances along with investigating the underlying causes of the negative balances.

## ***Prior Year Comments***

## **Material Weakness - Cash Reconciliations**

### Prior Year Material Weakness Comment

Since fiscal year 2019, we have reported to you that the Town's bank accounts have not been reconciled from the Treasurer's Cashbook to the bank statements during this fiscal year. The Town has implemented a variety of different cashbook systems since 2019 and has still been unable to reconcile the cash activity and balances between the Treasurer's Cashbook and the banks and between the Treasurer's Cashbook and the General Ledger in a timely manner. The fiscal year 2022 cash reconciliations took place at the end of fiscal year 2023 and several of the identified errors will not be recorded in the Town's ledgers until fiscal year 2023 due to the late reconciliation process. Additionally, several of the Town's bank accounts did not have the required transfers in and out recorded throughout the year, rendering the account balances inaccurate. We consider the failure to implement a process to reconcile cash timely to be a material weakness in the Town's internal controls.

The Town does not have any formal documentation of the procedures necessary to reconcile the cash balances. Turnovers in staff and a lack of documented procedures have increased the difficulties in this process.

Both the Treasurer and the Town Accountant play a key role in developing and monitoring a sound internal control structure. The Treasurer is responsible for establishing and maintain 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 is responsible for establishing and maintaining procedures to assure that all Town receipts and disbursements are properly authorized and recorded in the general ledger accurately and timely.

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 Treasurer's Cashbook and then reconciling those reconciled Treasurer's Cashbook balances to the Town's General Ledger. Performing these monthly reconciliations helps to ensure that errors are detected and corrected timely and that the Town's records are complete and accurate.

### Current Status - Resolved

In fiscal year 2023, the Town implemented a checklist to be used at the end of each month, ensuring that all necessary reconciliations were performed and reviewed regularly. Additionally, any discrepancies between bank balances and the Treasurer's Cashbook, as well as those between the Cashbook and the General Ledger, were resolved promptly.

## **Internal Financial Statements**

### Prior Year Comment

The Town's ledger is segregated into several funds that account for numerous individual projects and grants. The ledger provides a fund balance for a fund's entirety versus an individual fund balance for each project and grant being accounted for within a fund. This general ledger design requires the Town to prepare internal financial statements to be able to monitor and report on the individual project or grant balances and comply with all requirements and restrictions stipulated by the individual grant or project. The Town did not prepare all the financial statements necessary to be able to audit the Town's accounting records in a timely manner. The absence of internal financial statements makes the external reporting required of the Town difficult to produce as well as increases the likelihood the reporting contains errors. Preparing internal financials also provides assurance that the Town has recorded all the necessary entries and transfers on the Town's ledgers.



### Current Status - Unresolved

We continue to recommend the Town produce and reconcile internal financial statements annually and with adequate time to meet the Town's reporting requirements. These financial statements should account for all Town's funds and should be segregated by the fund type such as federal grants state grants, enterprise funds, etc. The financial statements should contain both a balance sheet and a profit loss statement that reconciles beginning and ending fund balance for each individual project and grant.

## **Document Key Administrative and Financial Functions**

### Prior Year Comment

Over the past few years, due to the turnover of critical personnel in the Town's finance positions, it became apparent that there are limited written policies and procedures for the key administrative and financial functions of the Town. Because there is a limited number of staff supporting key positions, a formal document that identifies and documents key areas of administration and operations would reduce the risk to the Town in the event that personnel have extended absences or leave the Town's employment. We recommend that the Town document all key managerial and financial functions that include, among other items, 1) daily, monthly, and yearly work processes and specific procedures; and 2) other specific information relative to the function being documented.

### Current Status - Resolved

Documentation of key administrative and financial functions was completed during fiscal year 2023 with the adoption of financial policies and procedures by the Select Board.

## **Net Other Postemployment Benefit Trust Fund Liabilities**

### Prior Year Comment

Accounting Standards require information that is provided through independent actuaries in order to meet the financial reporting and disclosure requirements for Other Postemployment Benefits (OPEB). The actuaries base their reports on a significant amount of information provided by various Town departments. The actuarial valuation is required to be completed every two years for Trust reporting with updates required in the years without a complete valuation. The report from the actuary is required for the Town to complete the annual audit of the financial statements. For the fiscal year 2022 audit, the report from the actuary was dated in May of 2023. The late reporting of OPEB information can cause substantial delays in the Town's ability to complete the independent audit timely.

In addition to the delays noted above, the Town has established an Other Postemployment Benefits (OPEB) Trust fund to pre-fund the Town's OPEB liability for retiree benefits. Any interest generated by the fund is required to be added to and become part of the OPEB fund. The balance in the OPEB Trust fund investment account has not been reconciled to the Trust Fund's balance on the ledger and the variance is approximately the amount of the fiscal year 2022 appropriation voted to be transferred to the fund (\$250,000), indicating that the bank transfer may not have taken place during the fiscal year, which would resulted in the OPEB Trust investments not earning the proper investment income.

#### Current Status - Unresolved

To ensure the timely and accurate reporting of the Town's net OPEB liability and related information in the financial statements, and to ensure that the Town's OPEB trust fund investments are accurately reported, we continue to recommend that the Town implement a process to reconcile the OPEB trust fund balance (Treasurer's balance) to the general ledger monthly; and that the timing of providing information to the Town's actuary and for the completion of the actuarial reports be coordinated in a manner that will permit the required information to be available at the beginning of the Town's independent audit.

#### **Reconciliation of Accounts Receivable**

##### Prior Year 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 reconciled and supported with underlying source documentation. In past years, we have recommended that the Town reconcile accounts receivable balances between the general ledger and the Treasurer/Collector on a monthly basis. This comment was considered resolved in fiscal year 2021 and has become a comment again in fiscal year 2022, as the accounts were not reconciled throughout the year and the reconciliation did not take place until many months after the fiscal year ended. In many instances, the commitments of bills were not recorded on the ledger during the year, further hindering any reconciliation process. Without timely reconciliations, the Town is at risk of relying on and reporting inaccurate balances in the general ledger, in the financial statements and in the accounts of individual taxpayers.

##### Current Status - Unresolved

We recommend that the Town reconcile the accounts receivable balances between the general ledger and the Treasurer/Collector on a monthly basis and correct any errors or discrepancies discovered through this process in a timely manner.