

TOWN OF PRINCESS ANNE, MARYLAND
AUDITORS' COMMUNICATIONS
YEAR ENDED JUNE 30, 2021

TOWN OF PRINCESS ANNE, MARYLAND

TABLE OF CONTENTS

| | <u>Page(s)</u> |
|--|----------------|
| Management letter | 1 - 4 |
| Required communications with those charged with governance | 5 - 8 |

MANAGEMENT LETTER



& Company, P.A.

**Certified Public Accountants
& Advisors to Business**

ANDREW M. HAYNIE, CPA

SUSAN P. KEEN, CPA

MICHAEL C. KLEGER, CPA

JAMES D. MAYBURY, CPA

E. LEE McCABE, CPA

JEFFREY A. MICHALIK, CPA

ROBERT L. MOORE, CPA

DANIEL M. O'CONNELL II, CPA

ASHLEY M. STERN, CPA

JOHN M. STERN, JR., CPA

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE

P.O. Box 72

SALISBURY, MD 21803

TEL: 410.546.5600

FAX: 410.548.9576

Ocean City

12216 OCEAN GATEWAY

SUITE 800

OCEAN CITY, MD 21842

TEL: 410.213.7185

FAX: 410.213.7638

Lewes

1143 SAVANNAH ROAD

SUITE 1

P.O. B

LEWES, DE 19958

TEL: 302.645.5757

FAX: 302.645.1757

MEMBERS OF:

**AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS**

**MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS**

**DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

ALLINIAL GLOBAL

November 15, 2022

To the President and Commissioners
Town of Princess Anne, Maryland

In planning and performing our engagement to audit of the financial statements of the Town of Princess Anne, Maryland as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Princess Anne, Maryland's internal control over financial reporting 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 our opinion on the effectiveness of the Town of Princess Anne, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Princess Anne, Maryland's internal control.

Our communication of material weaknesses and significant deficiencies in internal controls has been reported in the *Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards* and the *Schedule of Findings and Responses* on pages 35 through 41 of the financial statements. This letter does not affect our report dated November 15, 2022 on the financial statements of the Town of Princess Anne, Maryland.

Following are matters for the Commissioners and management's consideration:

CASH

Bank Reconciliations

Monthly bank reconciliations are the primary internal control procedure relating to the Town's cash accounts. Bank statements in some instances were accumulated for several months before they were reconciled. We recommend that all bank accounts be reconciled within ten to fifteen days of their receipt.

Outstanding checks and deposits

We noted that some checks and deposits on the outstanding checklist were more than six months old. To aid in the preparation of the bank reconciliation and to reflect an accurate cash balance in the financial statements, all checks outstanding over six months old should be investigated and voided or re-issued, as appropriate. All deposits over six months old should also be investigated.

ACCOUNTS RECEIVABLE

Advances to Washington Inn

The Town leases the Washington Inn to a LLC with an option to buy. As part of the agreement, the Town has paid expenditures, not covered by grants, for the benefit of the LLC of \$431,655. Although the lease does not specifically describe the terms for repayment, it is expected that the Town will be repaid within five years of the opening of the Inn. The Inn opened in September 2016.

We recommend that the Town formalize the agreement with the LLC for the repayment of these expenses. The agreement should include a schedule for repayment and include interest, if appropriate.

During the period ending June 30, 2021, it was noted that the annual billings to the Washington Inn were not invoiced until subsequent to year end. Without properly tracking the costs of the hotel, the Town may not be reimbursed for all their expenses when the Washington Inn is sold. We recommend that management establish procedures to keep track of expenses related to the Washington Inn in order to properly bill them.

Taxes receivable

The detailed listing of taxes receivable as of June 30, 2021 did not agree to the general ledger balances. This means that both the accounts receivable and the tax revenue reported in the Town's records were not accurate. Taxes receivable should be reconciled each month. Any differences should be investigated and resolved as soon as possible. This procedure will assist the Town in establishing reliable internal controls for the billing and collection of taxes receivable as well as the accuracy. We recommend that taxes be reconciled by personal property, corporate and real estate taxes.

MINUTES

During the year, no minutes were documented. Minutes serve as a record of the events of the council meetings and should document all important topics discussed and decisions reached. Documentation at Town meetings are important as they support authorization for activities and decisions made during the year. They also provide additional value by providing legal protection, structure, action towards goals and accountability. We encourage that all discussion and decisions made at meetings of the Town Commissioners be documented.

UPDATING RECORDS

We are aware that details of the fixed asset listing were not previously provided to each department to assess the accuracy of the listing. As a result, it is understood there was not a true understanding of what was recorded. During the audit, it was noted that there were several properties sold during the year. We recommend that the listing be reviewed annually to ensure the accuracy with any purchases, sales or disposals of assets.

PAYROLL POLICY

As of June 30, the Town has several employees who have annual leave exceeding 500 hours. There is an obvious understaffing issue with the Town which may cause limitations in employees taking time off. It is important to have a policy in place so that the Town is protected and not paying out more to employees than they should be. The only payout policy noted for the Town was for a payout for an employee in good standing upon termination.

The current policy is that annual leave in excess of 10 days must be used prior to December 31 of each year. We recommend that the Town keep track of the hours accumulated based on the policy in place.

The current policy is that upon termination of employment, an employee will not be paid for accumulated sick leave, but rather have unused sick leave rolled into the employee's benefits under the State Retirement system. With the recent turnover, we recommend, that termination benefits be handled according to policy.

Another item to note is the accrual of comp time. The policy states that compensatory time for nonsupervisory positions must be taken within the pay period that overtime would have been incurred. However, there are several employees who are continually accruing the compensatory time, as well as supervisory positions with compensatory time.

JOURNAL ENTRIES

During the audit it was noted that deposits of cash as well as checks and automatic debits were being recorded through journal entries causing an excessive amount of journal entries being posted. Excessive journal entry postings can cause errors or fraudulent activity to go undetected. We recommend the Town use the deposit and check functions of Peachtree to record these transactions, rather than journal entries.

During the audit, we also noted certain journal entries were not supported by acceptable documentation. In addition, the Town does not have a policy for required authorization of journal entries. We recommend that a policy be put in place to require personnel different from those who prepare journal entries to review and approve such entries.

CREDIT CARD RECEIPTS

During our audit, we also noted receipts were missing from the credit card statements. Because credit cards are easy to use and widely accepted, strong internal controls are necessary to ensure the cards are not misused. This practice could allow for unauthorized purchases to occur and not otherwise be detected. We suggest that original receipts be turned in timely and be filed with the statements. We also suggest that receipts be reviewed to avoid personal purchases.

WHISTLEBLOWER POLICY

A whistleblower policy is intended to encourage and enable employees and others to raise serious concerns internally so that issues can be addressed and corrected. We recommend that the Town implement a policy to help prevent any issues in the future.

CAPITALIZATION POLICY

At present, the Town does not have a formal capitalization policy. We suggest the adoption of a formal policy that sets specific thresholds for the capitalization of fixed assets. This will allow for stronger control over existing fixed assets and to ensure assets are properly safeguarded.

ACCOUNTING SOFTWARE

As noted in our prior year letter, the Town's current accounting software also creates problems with regards to the Town's accounting records. The Town currently uses several different computer systems for its accounting records. Peachtree software is used for the general ledger and Edmunds software is used for tax and miscellaneous billing. The two accounting systems are not working together effectively.

We suggest that the Town consider investing in new accounting software that will handle all of the Town's accounting needs. There are other accounting packages that may be more efficient and easier to use and would provide management with more complete and accurate financial information.

We will review the status of the above comments during our next audit engagement. We have discussed these comments with Town personnel, and we 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.

We would like to take this opportunity to thank the Town staff for their assistance and cooperation during our audit engagement. Please call us if you have any comments or questions.

CERTIFIED PUBLIC ACCOUNTANTS

**REQUIRED COMMUNICATIONS WITH THOSE CHARGED
WITH GOVERNANCE**



& Company, P.A.

**Certified Public Accountants
& Advisors to Business**

ANDREW M. HAYNIE, CPA

SUSAN P. KEEN, CPA

MICHAEL C. KLEGER, CPA

JAMES D. MAYBURY, CPA

E. LEE McCABE, CPA

JEFFREY A. MICHALIK, CPA

ROBERT L. MOORE, CPA

DANIEL M. O'CONNELL II, CPA

ASHLEY M. STERN, CPA

JOHN M. STERN, JR., CPA

PKScpa.com

Salisbury

1801 SWEETBAY DRIVE

P.O. Box 72

SALISBURY, MD 21803

TEL: 410.546.5600

FAX: 410.548.9576

Ocean City

12216 OCEAN GATEWAY

SUITE 800

OCEAN CITY, MD 21842

TEL: 410.213.7185

FAX: 410.213.7638

Lewes

1143 SAVANNAH ROAD

SUITE 1

P.O. Box 192

LEWES, DE 19958

TEL: 302.645.5757

FAX: 302.645.1757

MEMBERS OF:

**AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS**

**MARYLAND ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS**

**DELAWARE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

ALLINIAL GLOBAL

November 15, 2022

To the President, Commissioners and Town Manager
Town of Princess Anne, Maryland

We were engaged to audit the financial statements of the Town of Princess Anne, Maryland as of and for the year ended June 30, 2021, and have issued our report thereon dated November 15, 2022. However, we were unable to obtain sufficient appropriate audit evidence to provide a basis for audit opinions. Professional standards require that we advise you of the following matters relating to our engagement.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 2, 2022, our responsibility as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our engagement, we considered the internal control of the Town of Princess Anne, Maryland solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the engagement that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding material weaknesses and significant deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in the schedule of findings and responses on pages 37 through 41 of the financial statements.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

Our audit standards require we communicate significant risks identified in the planning phase and that we design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by error or fraud. Accordingly, we have identified revenue recognition, journal entries, and account coding as significant risks.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Town of Princess Anne, Maryland is included in the Summary of Significant Accounting Policies in the Notes to the Financial Statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal year 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the allowance for doubtful accounts and useful lives of capital assets in order to calculate depreciation.

Management's estimate of allowance for doubtful accounts is based on their knowledge of specific customer accounts and historical collection analysis. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Management's estimate of useful lives is based on their judgment of estimated useful property lives. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Town's financial statements relate to the disclosure of capital assets and net pension liability.

Significant Difficulties Encountered during the Audit

Although we ultimately received full cooperation of management and believe that we were given direct and unrestricted access to the Town of Princess Anne, Maryland's books and records, as we disclosed in the management letter, we encountered significant difficulties in performing and completing the audit process. Principally, these difficulties related to the poor condition of the books and records, lack of consistent and standard accounting procedures, lack of available documentation, and the lack of qualified internal staffing. All of these issues, as well as others, such as the constant turnover of staff, contributed to the problem and added to the time and related cost of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Reclassify debt payments to correct accounts.
- Reclassify and record deferred property taxes.
- Reclassify transactions to ODDI reimbursement account.
- Reclassify capital outlay expenses to correct accounts, record capital asset additions and disposals and adjust construction in progress.
- Record additional accounts payable, and adjust to detail listing.
- Record prepaid insurance.
- Adjust beginning fund balance to agree with prior year statements.
- Adjust accrued vacation and worker's comp liability.
- Adjustments to correct posting errors and misclassified revenues and expenses.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Town's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated November 15, 2022.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that they have contracted with a CPA firm to assist in reviewing internal financial statements, reconciliations, and provide guidance on accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with the Town, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Town's auditors.

Required Supplementary Information

We applied certain limited procedures to the Management Discussion and Analysis, the schedule of revenues and expenditures budget and actual, schedule of the Town's proportionate share of the net pension liability, and schedule of the Town's contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our engagement of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

This information is intended solely for the information and use of the Commissioners and management of the Town of Princess Anne, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

CERTIFIED PUBLIC ACCOUNTANTS