

TOWN OF BEACON FALLS, CONNECTICUT

**Communication of Certain
Internal Control Related Matters**

For The Year Ended June 30, 2015

DRAFT - FOR DISCUSSION PURPOSES ONLY - SUBJECT TO CHANGE

To management and the
Board of Finance of the
Town of Beacon Falls, Connecticut

In connection with our audit of the financial statements of the Town of Beacon Falls, Connecticut (the "Town"), as of June 30, 2015 and for the year then ended, auditing standards generally accepted in the United States of America ("US GAAS") require that we advise management and the Board of Finance (hereinafter referred to as "those charged with governance") of certain internal control matters identified during our audit.

Our Responsibilities

Our responsibility, as prescribed by US GAAS, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "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 identifying deficiencies in internal control or expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion on internal control effectiveness.

Deficiencies in Internal Control

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. 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 the attention by those charged with governance.

During our audit, we became aware of the following deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening the Town's internal controls and operating efficiencies:

New Matter for Consideration – *Fund Balance Policy*

During our audit, we noted that the Town has not adopted a fund balance policy to address the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 established a hierarchy of fund balance based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds and clarified the definitions of the general fund, special revenue funds, capital projects funds, debt service funds and permanent funds.

New Matter for Consideration – *Fund Balance Policy (continued)*

We recommend that the Town adopt a fund balance policy that addresses the requirements within GASB 54. The fund balance policy should address the following:

- how the Town will commit and/or assign fund balance;
- the order in which the Town will use fund balance when both restricted and unrestricted funds are available for expenditure, and, within unrestricted funds, when committed, assigned and/or unassigned funds are available for expenditure;
- the level of unassigned fund balance that should be maintained in the Town's General Fund; and the approval process for establishing special revenue funds.

New Matter for Consideration – *Fraud Risk Assessment Process*

All organizations are subject to fraud risks. Management of the Town is ultimately responsible for the design, implementation, and maintenance of internal controls to prevent and detect fraud.

During our audit, we noted that the Town does not have a formal fraud risk assessment process. A fraud risk assessment process is an important process that can be used by an organization to systematically identify where and how fraud may occur and who may be in a position to commit fraud. The process is used to identify fraud risk schemes as well as respective controls that may prevent or detect these schemes. An effective fraud risk assessment process:

- requires board input and oversight;
- is performed on a systematic and recurring basis;
- identifies instances where fraud may occur within the organization;
- involves appropriate personnel to consider potential fraud schemes and scenarios; and
- links potential fraud schemes and scenarios to mitigating controls.

The benefits of a planned and properly executed fraud risk assessment process includes identifying specific instances of fraud within the organization early, allowing the organization to address and detect fraud risk proactively rather than reactively and deterring potential fraud through its existence and communication to employees.

We recommend that the Town consider implementing a formal fraud risk assessment process. The process can be performed internally by management or through the use of an external consultant or firm with related expertise.

New Matter for Consideration – *Grant Monitoring*

The Town currently receives grants from the Federal Government and the State of Connecticut. These grants are often administered by various Town departments, other than the Town's Finance Department. During our audit, we noted that the Town's Finance Department is not always aware of the status of grant awards and grant reimbursement requests submitted to awarding agencies, which could result in situations where grant revenue is not being recognized when related costs are incurred.

We recommend increased communication between the Finance Department and the various departments administering the grants. In addition, we recommend policies and procedures be adopted to include, at minimal, an annual reconciliation between the Town Finance Department and the various departments administering grants, to ensure proper recording of all grant revenues and expenses. These procedures should be incorporated into the Town's year-end closing procedures.

New Matter for Consideration – Payroll Documentation

During our audit, we noted that the Town implemented a new payroll system. In connection with the transition to the new payroll system, hard copy detailed payroll registers were no longer being printed and maintained by the Finance Department. Monitoring procedures are an important payroll control that aids in identifying losses, errors, or irregularities.

We recommend that detailed payroll registers be printed and maintained in accordance with applicable documentation retention requirements. In addition, we recommend that management periodically review the payroll registers for accuracy.

Prior Year Matter for Consideration – Capitalization and Disposal of Capital Assets

The Town is required to account for capital assets in its government-wide financial statements. During our audit, we noted that the Finance Department does not currently maintain an internal tracking system for financial reporting purposes to ensure that all capital asset activity (additions and disposals) are captured in accordance with the Town's accounting policy.

We continue to recommend that the Finance Department implement a capital asset tracking system. A capital asset tracking system will improve accountability and the accuracy of financial reporting. Capital asset activity should be updated in the system in a timely manner throughout the year. Disposal of capital assets should be documented and reported to the Finance Department. In addition, as part of the year-end closing process, we recommend that the Finance Department verify the existence of its movable capital assets.

Prior Year Matter for Consideration – Budgetary Monitoring

The Board of Finance is authorized to transfer unexpended balances from one appropriation to another throughout the year. In addition, the Town should have a formal purchase order process in place that is adhered to in order to ensure budgetary compliance. During our audit we noted that requests were made of the Board of Finance for transfers of unexpended balances from one appropriation to another only after expenditures in excess of the original departmental appropriations were incurred.

We continue to recommend that the procedures be implemented to allow for the timely identification of potential budgetary overruns so that transfer requests can be made of the Board of Finance prior to incurring the expenditures.

Prior Year Matter for Consideration – Tracking of Capital Projects

During our audit, we noted that the Town does not currently maintain a detailed schedule that tracks cumulative project expenditures and related funding.

We continue to recommend that the Town develop a project tracking system that captures the following information:

- Date of Project Authorization
- Amount of Project Authorization
- Sources of Project Funding
- Prior Year, Current Year and Cumulative Project Expenditures

In addition, we recommend that project expenditures be separately tracked within the general ledger based on whether or not the expenditures are being charged to federal awards or state financial assistance.

This communication is intended solely for the information and use of the Board of Finance and management of the Town, the Office of Policy and Management, and state awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Glastonbury, Connecticut
January 29, 2016

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