

**TOWN OF BEACON FALLS, CONNECTICUT**

**COMMUNICATION OF CERTAIN  
INTERNAL CONTROL RELATED MATTERS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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, 2017 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:

### **CURRENT YEAR RECOMMENDATIONS**

#### ***Accounts Payable Closing Procedures***

During the current year, we noted the majority of adjustments recorded during the audit pertained to the accrual of liabilities in various funds. There were certain instances in which prior year accruals were not properly reversed and current year accruals were not properly recorded.

We recommend that the Town develop closing procedures that would ensure proper cut-off of accounts payable at year-end. Closing procedures would involve analyzing the service period or delivery date noted on all invoices received subsequent to year-end to ensure proper inclusion or exclusion at fiscal year-end. In addition, closing procedures would involve creating a detailed listing of all outstanding invoices to support the year-end accounts payable balances in each fund.

## **CURRENT YEAR RECOMMENDATIONS (Continued)**

### ***Reconciliation of Accounts Payable and Encumbrances***

During our audit, we noted that the Town did not prepare a detailed listing of accounts payable as of year-end. In addition, we noted that the Town does not currently have a formal procedure relating to year-end cut-off of encumbrances. Encumbrances are commitments related to unperformed, legally binding contracts for the purchase of goods or services. Encumbrances are not considered expenditures or liabilities in accordance with accounting principles generally accepted in the United States of America ("GAAP"), but represent a budgetary tool for estimating the amount of expenditures to be incurred if unperformed contracts and purchase orders in process are completed.

We recommend that the Finance Department prepare a detailed accounts payable listing and reconcile the listing to the general ledger as part of the annual closing process. We recommend that the Town's Finance Department review all open purchase orders in connection with its annual closing process, and more frequently if deemed necessary, to determine if the open purchase orders still represent valid obligations. Purchase orders that no longer represent valid obligations or that are required to be recommitted against the subsequent year appropriation should be closed out as part of the annual closing process.

### ***Capital Assets Tracking***

The Town is required to account for capital assets in its government-wide financial statements. During our audit, we noted that the Finance Department was unable to provide a current listing of capital assets and related activity as of and for the year ended June 30, 2017.

We recommend that the Finance Department maintain a capital asset ledger in a centralized location and implement a process for tracking capital asset activity in a timely manner. Capital assets should be captured as part of the normal disbursement process. 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. This process will improve accountability and the accuracy of financial reporting.

### ***Disposal of Fully Depreciated Capital Assets***

During the current year, the audit team noted no capital asset disposals were identified by the Town. In addition, the Town did not have procedures in place that would facilitate timely disposals and accurate record keeping. We recommended that the Town implement procedures that require periodic notification to the Finance Office of capital asset disposals to ensure timely and accurate recording for financial reporting purposes. Documentation of disposals should include the method of disposal, approval obtained and the sale amount, if applicable. In addition, we recommended that the Town perform a physical inventory of all movable assets, to ensure any older, fully depreciated assets are indeed still held by the Town.

## **PREVIOUS YEAR RECOMMENDATIONS – UNRESOLVED**

### ***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.

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 continue to 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.

### ***Reconciliation of Property Taxes and Assessments***

The Town bills taxpayers for property taxes, as well as water and sewer assessments. While the Town does perform a monthly reconciliation of tax and assessment collections, the audit team noted formal procedures are not in place to facilitate a detailed year-end reconciliation of these balances.

We continue to recommend that the Town develop closing procedures that will allow for a detailed reconciliation between the general ledger software and the tax and assessment collection software. The reconciliation should focus on tax and assessments receivable, allowance for uncollectible accounts, deferred accounts, tax and assessment revenue recognized, including amounts collected during the subsequent 60 day collection period.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Town personnel, and we will be pleased to discuss them in further detail at your convenience, to perform additional study of these matters, or to assist you in implementing the recommendations.

We appreciate the courtesies extended to us by the management and staff of the Town.

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

*Mahoney Sabol + Company, LLP*

Glastonbury, Connecticut  
January 9, 2018