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To the Members of the Town Council
Town of Groton, Connecticut

In planning and performing our audit of the financial statements of the Town of Groton, Connecticut, as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Groton, Connecticut's internal control over financial reporting (internal control) 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 an opinion on the effectiveness of the Town of Groton, Connecticut's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Groton, Connecticut's internal control.

We noted the following matters involving the internal control over financial reporting and its operation that we offer as constructive suggestions for your consideration as part of the ongoing process of modifying and improving accounting controls and administrative practices.

Cash Collections

During our audit, we noted that the same individual receives the cash collections from decentralized departments and enters those collections into the accounting system for certain departments. Although the Accounting Manager reviews the overall cash balance and the decentralized departments have read-only access to review the deposits recorded to the system, there is no formal review on a transactional basis.

Recommendation – We recommend that the Town institute a more formal and detailed review over this process, whether the review rests with another member of the Finance Department or with a representative of each decentralized location. Additionally, we recommend that there be an affirmative confirmation by that individual to indicate that the deposit appears correct.

Board of Education Year End Process

We also noted that, while the Board of Education has made significant improvements in its process for tracking Accounts Payable and Encumbrances at year end, there is no formal mechanism to review the fiscal year to which such yearend transactions are recorded.

Recommendation - We recommend that the Board of Education put into place a formal review of year end activity to ensure that yearend transactions are charged to the appropriate year. One component of this stronger review could be a formal budget-to-actual review by the Business Manager and the Board; another component could be a reconciliation between the Town and the Board of Education of activity related to encumbrances and activity in July and August.

Other Recommendations

During our audit, we gathered additional recommendations that represent best practices for the industry. Some of the key recommendations are noted below:

- We recommend that all Town and Board of Education employees ensure that all review, reconciliation, and other similar procedures are formally documented.
- We recommend that the Tax Collector, in conjunction with the Finance Department, review the allowances against tax-related receivables at each year end to ensure that the balances remain adequate,

Fraud Risk Assessment

It is estimated that U.S. businesses, including municipalities, lose up to 7% of annual revenue to fraud. Municipalities are especially vulnerable due to the large amounts of cash collected in the tax collector's office, in addition to decentralized cash collection points such as transfer stations, golf courses, recreation programs, etc. Although fraud may take many forms, asset misappropriation is the most common. Internally, fraudulent disbursements and inventory theft account for most asset misappropriation frauds. This type of fraud often goes undetected for several years. Current economic and business conditions have created an environment in which the risk of fraud has increased dramatically.

During the annual audit, we do obtain an understanding of the Town's internal controls and assess the risk of fraud and whether or not the financial statements would be materially misstated due to these risks, however, an audit is designed to provide reasonable, but not absolute assurance. Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform an examination of all transactions, there is a risk that material misstatements or noncompliance or fraud may exist and not be detected by us, even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs.

During our discussions with management, we noted that the Town has not performed a fraud risk assessment. The objectives of a Fraud Risk Assessment are to gather perceptions of fraud risk and to promote fraud awareness and prevention across the entity. The Fraud Risk Assessment process starts with the gathering of information on the population of fraud risks that may apply to the entity. This includes consideration of various types of possible fraud schemes, scenarios and opportunities to commit fraud. This information is then used to assess the relative likelihood and potential significance of identified fraud risk based on historical information, known fraud schemes and interviews with staff and management. A report is prepared documenting fraud risk within the entity and setting forth suggested policies and procedures to help prevent and detect fraud.

Recommendation - The best way to deal with fraud is to prevent it. We recommend that the Town have a Fraud Risk Assessment performed. A Fraud Risk Assessment is designed to proactively identify fraud risk, pinpoint opportunities to attack and reduce the cost of fraud, determine if adequate fraud prevention exists and to help create cost effective fraud prevention and detection policies and procedures.

Fraud Tip Line

According to the *2014 Report to the Nations on Occupational Fraud and Abuse by the Association of Certified Fraud Examiners*, 42% of corruption cases are detected by tip. In contrast, management review, the second most common detection method for corruption cases, uncovered 16% of these schemes. External audits and reports from law enforcement accounted for far fewer discoveries of corruptions, just 3% and 2%, respectively, of these schemes. Additionally, of the whistleblower tips that led to the investigation of the cases, 49% of those tips came from an employee and another 15% came from an anonymous source.

Recommendation - We recommend that the Town consider instituting a formal whistleblower policy that includes a tip line for employees to report suspected fraud or inconsistencies.

This letter should be read in conjunction with our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated December 10, 2014.

This communication is intended solely for the information and use of management, Members of the Town Council, others within the organization, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blum, Shapiro & Company, P.C.