

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 (the Town), as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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.

## **PRIOR YEAR RECOMMENDATIONS (REPEATED AND UPDATED)**

### **Educational Grant Fund - Board of Education**

In accordance with generally accepted accounting principles, revenue received in a governmental fund should be recognized when earned. As part of the fiscal year end close procedures, expenditures by grant should be compared to the cash received and journal entries should be posted to adjust revenue accounts accordingly. The Board of Education provides a grant summary that calculates the accounts receivable and deferred revenue by grant for the audit each year; however, that information is not provided to the Town for inclusion into their general ledger that posts the balance sheet activity.

**Recommendation** - We recommend that procedures be developed to ensure this grant summary is provided to the Town, reconciled to cash received and proper journal entries posted.

### **Fraud Risk Assessment**

In the 2018 Report to the Nations, a survey of members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence was \$130,000, with more than 22% of those cases resulting in losses exceeding \$1,000,000. Almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. 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, recreation programs, school activity accounts, etc. Also, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), through fraudulent cash disbursements.

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.

**Recommendation** - To address this risk, we recommend that the municipality perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Entity's internal control should include performance of this assessment.

The fraud risk assessment can be formal - performed by an outside accounting or consulting firm; or informal - performed by a management-level individual who has extensive knowledge of the Entity that might be used in the assessment. The fraud risk assessment process should consider the Entity's vulnerability to misappropriation of assets.

This letter should be read in conjunction with our 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* dated December 20, 2018.

This communication is intended solely for the information and use of management, members of the Town Council, others within the organization, and 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.*

West Hartford, Connecticut  
December 20, 2018