29 South Main Street
P.O. Box 272000
West Hartford, CT 06127-2000

Tel 860.561.4000
Fax 860.521.9241
blumshapiro.com

BlumShapiro

Accounting | Tax | Business Consulting

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, 2017, 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.

CURRENT YEAR RECOMMENDATIONS

General Ledger Maintenance

One of the many responsibilities of management is to establish and maintain effective internal controls in order to ensure that the financial statements are fairly presented in accordance with generally accepted accounting principles. Developing strong controls and procedures regarding the information posted within the financial management system ensures the Town that the information is being accurately presented, allowing the governing body to make sound financial decisions on a timely basis. During the audit we noted the following:

- Some grant related receivables and deferred revenue were not recorded in the general ledger.
- Capital Project fund expenditures were not reported in the proper period.
- Tax collector bank accounts and reconciliation to the Town's general fund revenue accounts were not completed timely throughout the year.

Recommendation - Detailed checklists and procedure manuals can be helpful in situations where turnover occurs in a department. We recommend that the Town strengthen its internal controls by documenting monthly and year-end close procedures, which includes the assignment of responsible individuals along with designated reviewers to ensure timely completion of all action steps. Department heads should submit invoices for payment in a more timely manner.

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. 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.

PRIOR YEAR RECOMMENDATIONS

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.

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, 2017.

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 thee specified parties.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
December 20, 2017