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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 (the Town), as of and for the year ended June 30, 2020, 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

Transfer Station Cash Collections

During the audit, it was noted that there is no formal collection process at the Transfer Station as there are multiple employees who have access to cash. There should be a process and associated documentation identifying who has the ability to collect cash/checks as well as who collected the cash. Once the cash is collected, the deposit should be reviewed by someone other than the employee who collected the cash.

Recommendation – We recommend the Town develop formal processes and controls over the cash collection and revenue recognition process. Additionally, we recommend the Town consider installing a camera to record the transactions and ensure that the collections are properly handled.

PRIOR YEAR RECOMMENDATIONS (REPEATED AND UPDATED)

Fraud Risk Assessment

In the 2018 Report to the Nations, a survey of members conducted by the Association of Certified Fraud Examiners, 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 Town'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 Town that might be used in the assessment. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets.

The fraud risk assessment should include a cybersecurity assessment. Cybersecurity is now considered a key business risk by most organizations. Being able to anticipate cybersecurity threats and develop strategies to prevent them is a critical part of a risk management program. Losses and recovery costs from data breaches, phishing attacks, ransomware and other incidents can be substantial. While the Town has implemented certain policies and procedures to reduce the risk of loss to a cybersecurity attack, a more formal approach to assessment and strategy is considered a best practice and should be considered.

An annual vulnerability assessment should be performed that identifies and evaluates exposures that could negatively impact the Town's ability to conduct business. This will identify your protected data, how it is stored, who has access and other critical information. It is then analyzed for security gaps based on your existing environment, and strategies are developed to mitigate those exposures. Successful strategies also include robust employee training, penetration and compliance testing, and protocols for responding to actual breaches, viruses and other attacks.

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 22, 2020.

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 22, 2020