

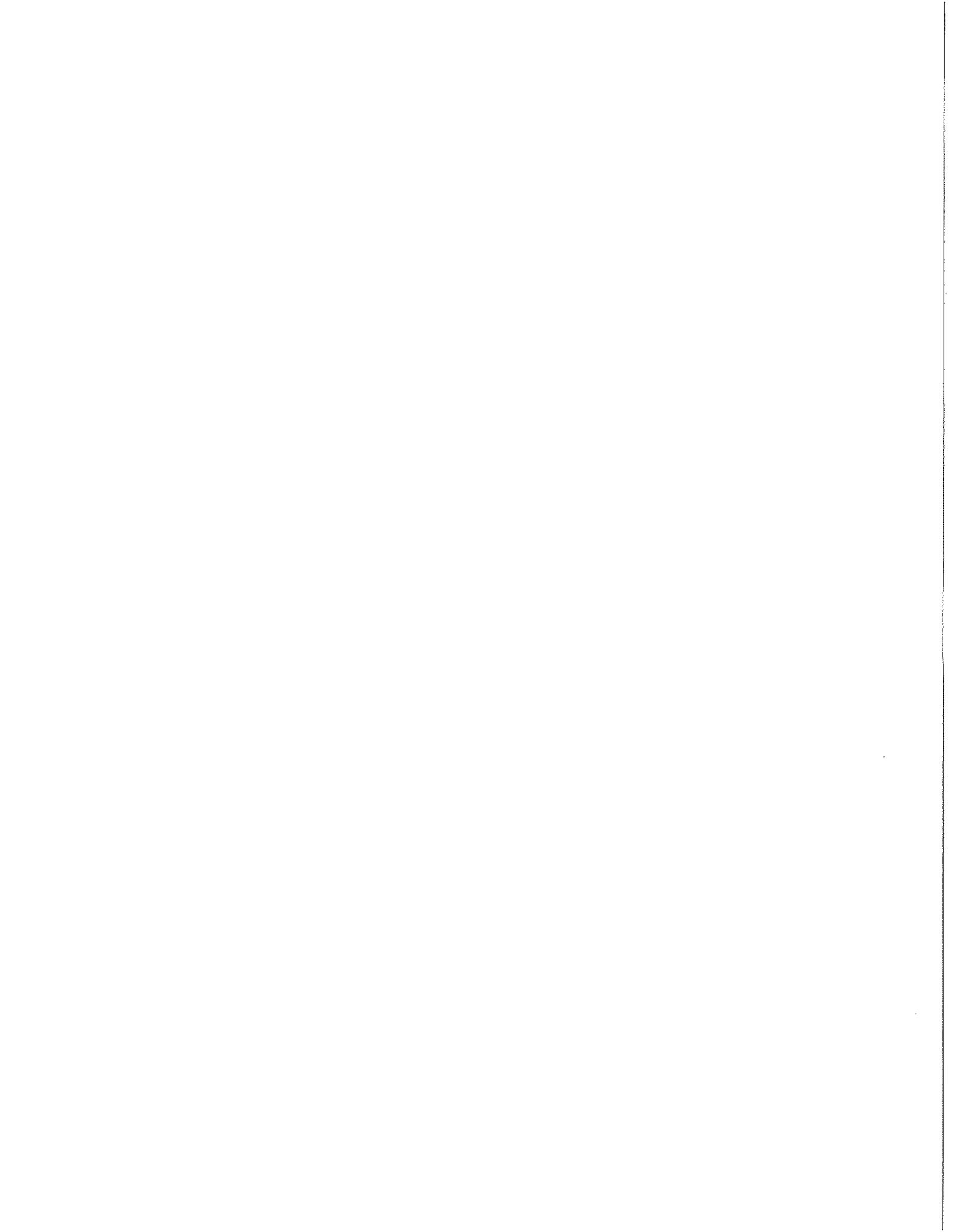
TOWN OF MANSFIELD
FINANCE COMMITTEE MEETING

Tuesday, October 13, 2015

Audrey P. Beck Building
Council Chambers
6:00pm

A G E N D A

1. Call to order
2. Approval of the minutes for September 15, 2015
3. Approval of the minutes for September 21, 2015
4. Opportunity for Public Comment
5. Staff Reports
6. Policies & Procedures Update
7. Fraud Risk Assessment RFP
8. Audit Services – FY 2015/16
9. Communications/Other Business/Future Agenda Items
10. Adjournment



Item # 2

TOWN OF MANSFIELD
FINANCE COMMITTEE MEETING
MINUTES OF SEPTEMBER 15, 2015

Members Present: Ryan (Chair), Shapiro, Raymond

Other Council Members Present: Marcellino, Moran (6:02), Wassmundt (6:08pm)

Staff Present: Hart, Trahan

Guests: Ms. Ellen Grant (First Transit), Administrator WRTD; Ms. Lisa Seymour, Finance Director WRTD; Rose Kurcinik, WRTD

1. Meeting called to order at 6:00pm
2. Approval of minutes for August 19, 2015

Shapiro moved and Raymond seconded to approve the minutes of August 19, 2015. Motion passed unanimously.

3. Opportunity for Public Comment – None
4. Staff Reports – Finance Director Trahan provided an update on the RFP for fraud risk assessment services that went out on 8/4/15. We received 4 responses – Cohn Reznick, BlumShapiro, Sobel & Co, and Navigant Consulting. Management is reviewing the proposals and will bring a recommendation to the Finance Committee at its October meeting.
5. WRTD Budget and Operations Review – Town Manager Hart introduced Ms. Ellen Grant, Administrator for WRTD, Lisa Seymour, Finance Director for WRTD and gave a brief overview of the actions taken by the new Board members. Ms. Seymour and Ms. Grant provided an explanation of the additional contribution they are requesting from the member towns, as well as a review of procedural & operational changes they have made. Ms. Seymour and Ms. Grant answered questions from the Committee regarding the same.
6. Quarterly Financial Statements dated June 30, 2015 – Trahan answered questions from the Committee regarding various funds in the quarterly financial statement package. The Committee had an in-depth discussion regarding the significant increase in health insurance claims and how to best rebuild Fund Balance.

Shapiro moved and Raymond seconded to approve the Quarterly Financial Statements dated June 30, 2015. Motion passed unanimously.

7. Proposed FY 2014/15 Yearend Transfers – Since there was not sufficient time to review the proposed transfers, the Committee will carry this item over to a Special Meeting of the Finance Committee.
8. Proposed FY 2014/15 CIP Adjustments and Closeouts - Since there was not sufficient time to review the proposed adjustments, the Committee will carry this item over to a Special Meeting of the Finance Committee.

9. Communications/Other business/future agenda items –

- ⇒ Update on the Fee Waiver changes – impact on families & on program revenues
- ⇒ Update on Fraud Policy, Fraud Tip Line & Whistleblower Policy
- ⇒ Review of Purchasing Ordinance
- ⇒ Level at which we propose bonding
- ⇒ Continue review of the Fiscal Management Policies (Fund Balance complete, need to do Investment, Debt, etc)
- ⇒ Discussion with Mansfield Discovery Depot regarding a preschool subsidy
- ⇒ Parameters for building permit fee reductions

10. Adjournment. The meeting adjourned at 7:28 pm.

Shapiro moved and Ryan seconded to adjourn. Motion passed unanimously.

Respectfully Submitted,
Cherie Trahan, Director of Finance

2015 Local Match						
Town	Request DAR	Request FR	Request ADA	Total Request	Add. Request	DOT Add. Funding
Ashford	\$ 11,315.00			\$ 11,315.00	1817.64	\$140000 2/26/15
Chaplin	\$ 3,800.00			\$ 3,800.00	578.34	\$75000 by 6/30/15
Columbia	\$ 6,931.00			\$ 6,931.00	1115.37	\$28000 by 6/30/15
Coventry	\$ 14,469.00			\$ 14,469.00	2313.36	\$243000 granted
Hampton	\$ 9,224.00			\$ 9,224.00	1487.16	
Lebanon	\$ 14,000.00			\$ 14,000.00	2230.74	17% local match =
Mansfield	\$ 41,212.00	\$ 34,718.00	\$ 17,397.00	\$ 93,327.00	14499.81	\$ 41,310.00
Scotland	\$ 3,385.00			3385	537.03	
Willington	\$ 17,789.00			17789	2850.39	
Windham	\$ 49,805.00	\$ 22,031.00	\$ 9,557.00	\$ 81,393.00	12640.86	
TOTAL	\$ 171,930.00	\$ 56,749.00	\$ 26,954.00	\$ 255,633.00	\$ 41,310.00	

2016 Local Match						
Town	Request DAR	Request FR	Request ADA	Add. Request	Total Request	DOT Add. Funding
Ashford	\$ 11,881.00			2180.01	14,061.01	\$144,900
Chaplin	\$ 3,990.00			726.67	4716.67	\$77,625
Columbia	\$ 7,278.00			1349.53	8627.53	\$82,800
Coventry	\$ 14,700.00			2802.87	17,502.87	\$305,325
Hampton	\$ 9,685.00			1764.77	11,449.77	
Lebanon	\$ 14,700.00			2699.06	17,399.06	17% local match =
Mansfield	\$ 45,322.00	\$ 36,453.00	\$ 18,267.00	18633.9	118675.9	\$ 51,905.25
Scotland	\$ 3,554.00			622.86	4176.86	
Willington	\$ 18,678.00			3477.63	22155.63	
Windham	\$ 54,393.00	\$ 29,657.00	\$ 9,557.00	17647.95	111254.95	
TOTAL	\$ 184,181.00	\$ 66,110.00	\$ 27,824.00	\$ 51,905.25	\$ 330,020.25	

2016 Local Match						
Mansfield	DAR	Fixed Route	ADA	Add. Request	STR/WILI AD	Total Request
Requested	\$ 45,322.00	\$ 36,453.00	\$ 18,267.00	\$ 18,633.90	\$ 3,330.00	\$ 122,005.90

RIDERSHIP FY15		
Dial A Ride	Storrs Willi	TOTAL
4491	103747	108238

Health Insurance Fund
Historical Fund Balance
FY 05/06 - FY 14/15

	Fund Balance	Incr/(Decr)
7/1/2005 Beginning Fund Balance	\$ 288,402	
6/30/2006 Ending Fund Balance	1,106,054	817,652
6/30/2007 Ending Fund Balance	632,087	(473,967)
6/30/2008 Ending Fund Balance	354,547	(277,540)
6/30/2009 Ending Fund Balance	1,416,594	1,062,047
6/30/2010 Ending Fund Balance	2,954,870	1,538,276
6/30/2011 Ending Fund Balance	3,706,795	751,925
6/30/2012 Ending Fund Balance	3,905,066	198,271
6/30/2013 Ending Fund Balance	3,584,310	(320,756)
6/30/2014 Ending Fund Balance	2,651,105	(933,205)
6/30/2015 Ending Fund Balance	870,603	(1,780,502)
6/30/2016 Projected Fund Balance	1,170,603	300,000

ANTHEM BLUE CROSS MONTHLY CLAIMS
ANNUAL BASIS

MONTH	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Avg. '91- Present	5 Yr. Avg. '10-'14
JANUARY	204,232	200,762	251,986	333,923	342,476	358,256	356,891	364,331	508,001	454,813	389,841	497,371	461,600	596,583	684,680	204,233	299,508	526,015
FEBRUARY	194,411	180,679	267,614	331,286	340,298	305,259	492,485	527,867	629,924	521,301	497,159	550,084	480,989	525,952	678,239	916,556	353,465	546,487
MARCH	211,199	200,818	237,003	358,881	386,649	409,245	392,136	482,188	399,055	482,221	519,594	600,223	603,600	613,319	618,690	1,077,897	350,709	571,085
APRIL	181,703	206,143	342,562	259,835	402,093	443,382	321,969	484,465	476,056	473,587	517,452	513,677	461,016	512,034	588,271	703,022	317,795	518,490
MAY	215,754	244,270	276,117	387,515	391,287	387,104	383,505	562,876	516,518	511,932	346,650	399,403	557,547	662,586	522,070	509,140	325,380	497,451
JUNE	193,546	251,842	251,747	347,060	357,517	399,827	386,641	606,023	425,253	419,214	465,244	483,975	468,241	494,196	595,866	648,834	323,016	501,504
JULY	216,792	216,195	231,239	353,025	332,653	368,941	409,635	430,780	493,991	534,203	667,615	410,100	471,363	548,338	726,844	670,831	331,337	564,852
AUGUST	215,571	247,118	247,238	296,808	327,584	323,401	499,754	554,171	567,129	520,970	583,042	443,808	576,008	571,304	642,551	543,356	338,438	563,343
SEPTEMBER	264,603	230,526	257,481	323,667	302,399	288,440	415,053	430,908	438,495	438,428	320,452	475,683	386,452	438,160	807,650		293,580	485,659
OCTOBER	180,875	240,996	262,401	312,245	275,610	351,888	370,945	384,033	440,640	518,768	524,875	429,967	526,558	480,679	804,719		300,827	553,360
NOVEMBER	203,813	208,715	217,831	342,691	448,834	299,862	370,405	489,535	383,653	461,484	371,112	419,740	468,559	532,440	699,223		292,445	488,215
DECEMBER	185,278	256,252	190,532	415,554	358,577	343,209	427,447	436,589	358,543	368,522	502,648	451,734	429,097	488,762	962,302		307,770	566,909
ANNUAL TOTAL	2,467,777	2,684,315	3,033,761	4,062,490	4,265,977	4,288,835	4,826,866	5,753,767	5,637,258	5,705,441	5,705,685	5,674,774	5,791,031	6,464,352	8,331,007	5,273,872	3,786,485	6,393,370
MONTHLY AVG	205,648	223,693	252,813	338,541	355,498	357,403	402,239	479,481	469,772	475,453	475,474	472,898	482,566	538,696	694,251	659,234	324,330	532,781
% OF INCREASE	19.80%	8.77%	13.02%	33.91%	5.01%	0.54%	12.54%	19.20%	-2.02%	1.21%	0.00%	-0.54%	2.05%	11.63%	28.88%	-5.04%	10.55%	8.40%

ANTHEM BLUE CROSS MONTHLY CLAIMS
FISCAL YEAR BASIS

MONTH	99/00	00/01	FY 01/02	FY 02/03	FY 03/04	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY08/09	FY09/10	FY10/11	FY11/12	FY12/13	FY13/14	FY 14/15	FY 15/16	Average '92-15	5 Yr. Average FY'11-'15
JULY	170,906	216,792	216,195	231,239	353,025	332,653	368,941	409,635	430,780	493,991	534,203	667,615	410,100	471,363	548,338	726,844	670,831	317,192	564,852
AUGUST	146,139	215,571	247,118	247,238	296,808	327,584	323,401	489,754	554,171	567,129	520,970	563,042	443,808	576,008	571,304	642,551	543,388	329,900	583,343
SEPTEMBER	140,741	264,603	230,526	257,481	323,667	302,399	296,440	415,053	430,908	438,495	438,428	320,452	475,683	386,452	438,160	807,550		293,580	485,659
OCTOBER	108,729	180,875	240,996	262,401	312,245	275,610	351,888	370,945	384,033	440,640	518,768	524,875	429,967	526,558	480,679	804,719		300,827	553,360
NOVEMBER	125,829	203,813	208,715	217,831	342,691	448,854	299,882	370,405	489,535	383,653	461,484	371,112	419,740	488,559	532,440	699,223		292,445	498,215
DECEMBER	181,592	185,278	255,252	190,532	415,554	358,577	343,209	427,447	436,589	358,543	368,522	502,648	451,734	429,097	488,762	962,302		307,770	566,909
JANUARY	204,232	200,762	251,966	333,923	342,476	358,256	355,891	364,331	506,001	454,813	389,841	497,371	461,600	596,583	684,680	204,233		307,874	488,893
FEBRUARY	194,411	180,679	267,614	331,286	340,298	305,259	482,485	527,667	629,924	521,301	497,159	550,094	480,989	525,952	678,239	916,556		365,400	630,388
MARCH	211,199	200,818	237,003	358,881	386,649	409,245	392,138	482,188	399,055	482,221	519,594	600,223	503,600	613,319	618,690	1,077,897		362,697	682,746
APRIL	181,703	206,143	342,562	259,835	443,382	321,969	484,465	484,465	476,056	473,587	517,452	513,677	461,016	512,034	588,271	703,022		328,716	555,604
MAY	215,754	244,270	276,117	387,515	391,287	387,104	383,505	562,876	516,518	511,932	348,650	399,403	557,547	662,566	522,070	509,140		336,590	529,949
JUNE	193,549	251,842	251,747	347,060	357,517	399,827	386,641	606,023	425,253	419,214	465,244	483,975	494,196	494,196	595,866	648,834		332,845	538,222
ANNUAL TOTAL	2,074,584	2,551,446	3,026,831	3,425,231	4,264,309	4,348,731	4,319,389	5,520,987	5,680,824	5,545,518	5,578,314	6,013,486	5,564,023	6,262,708	6,747,500	8,702,872	1,214,190	3,875,636	6,658,118
MONTHLY AVG	172,882	212,620	252,236	285,436	355,359	362,384	359,948	460,082	473,402	462,127	464,860	501,124	463,669	521,892	562,292	725,239	607,095	322,966	554,843
% OF INCREASE	-5.1%	23.0%	18.6%	13.2%	24.5%	2.0%	-0.7%	27.8%	2.9%	-2.4%	0.6%	7.8%	-7.5%	12.6%	7.7%	29.0%	-16.3%	10.64%	9.9%

TOWN OF MANSFIELD
SPECIAL FINANCE COMMITTEE MEETING
MINUTES OF SEPTEMBER 21, 2015

Members Present: Ryan (Chair), Shapiro, Raymond

Other Council Members Present: Marcellino, Moran, Wassmundt

Staff Present: Hart, Trahan

Guests: None

Meeting called to order at 6:00pm

1. Opportunity for Public Comment – None
2. Proposed FY 2014/15 Yearend Transfers and Appropriations – Town Manager Hart began with a discussion of the recent rescissions in State aid for FY 15/16. Mansfield will be seeing an \$81,087 reduction in PILOT funding. Due to concerns about rescissions, in July 2015 Hart instructed Town Department Heads to hold back 50-75% of discretionary spending and to limit FY 15/16 CIP funding to spending on priority projects only (email attached). In addition Mansfield received \$70,758 from FEMA for emergency relief and recovery assistance as a result of the 1/26 – 1/28/15 Blizzard. Both of these items will help to offset the rescission by the State. The Committee then reviewed the proposed additional appropriations and transfers in detail, with Finance Director Trahan answering questions from the Committee. Trahan distributed a recap of the approved and proposed additional appropriations for FY 14/15 for the Committee's information (attached).

Shapiro moved and Raymond seconded to approve and to recommend approval by the full Council, the FY 2014/15 Yearend Budget Transfers and Appropriations as presented in the memo dated 09/10/15 from Finance Director Trahan. Motion passed unanimously.

3. Proposed FY 2014/15 CIP Closeouts and Adjustments – The Committee reviewed the proposed CIP adjustments and closeout in detail. Trahan answered various questions regarding a number of projects, including the Stone Mill Bridge project, Town Square contributions, and the School Building Maintenance account.

Shapiro moved and Raymond seconded to approve and to recommend approval by the full Council, the FY 2014/15 CIP Closeouts and Adjustments as detailed in the memo dated 9/10/15 from Finance Director Trahan. Motion passed unanimously.

4. Adjournment. The meeting adjourned at 6:54 pm.
Shapiro moved and Raymond seconded to adjourn. Motion passed unanimously.

Respectfully Submitted,
Cherie Trahan, Director of Finance

From: Matthew W. Hart
Sent: Friday, July 10, 2015 4:05 PM
To: Mansfield Dept. Heads <headhonchos@MANSFIELDCT.ORG>
Cc: Alicia Ducharme <DucharmeAM@mansfieldct.org>
Subject: Guidance on FY 2015/16 Operating Budget and CIP

Department heads:

As we discussed at our July 7 department head meeting, I am concerned about the possibility of a rescission on state aid late in the new fiscal year (FY 2015/16) and want to be prepared for this and other contingencies. Consequently, we need to be mindful of how we move forward with discretionary expenditures and capital projects for the new year.

As a general rule, for the first six months of FY 2015/16 please try to limit discretionary expenditures to 50-75% of budget. We understand that there will be some variation between departments based on seasonal needs and other factors.

For the FY 2015/16 CIP, we should commence the year with priority projects only. By COB on July 24th, please send Cherie Trahan, Alicia Ducharme and me an email detailing your plan for new capital projects for the first 6 months of the fiscal year (through 12/31/15). Funding for previously budgeted projects is not an issue and do not include these in your proposal.

Cherie and I will review your CIP proposal and respond in a timely manner.

We will review the operating budget and CIP in detail in January 2016 and see where we stand for the balance of the fiscal year.

Please acknowledge your receipt of this email and let us know if you have questions.

We appreciate your assistance with this important matter,

Matt Hart
Town Manager
Town of Mansfield
860-429-3336

4 South Eagleville Road
Mansfield, CT 06268
Fax: 860-429-6863
www.MansfieldCT.gov

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Town of Mansfield
FY 2014/15 Additional Appropriations

10/14/2014	Additional Appropriation of PILOT grant:		
	Replacement for Ambulance 607 (Used Vehicle)	\$	50,000
	Pavement Management System Study		50,000
	Street Sign Inventory/Replacement		60,000
	Financial Operations & Control Review		52,500
	Total Additional Appropriation	<u> </u>	\$ 212,500
11/24/2014	Additional Appropriation of PILOT grant:		
	NextGen Study		25,000
3/9/2015	Additional Appropriation of PILOT grant:		
	Community Playground		132,070
Proposed			
9/21/2015	Additional Appropriation of PILOT grant (\$328,000) & Building Permit Revenue (\$55,000):		
	Facilities Deferred Maintenance Account	179,000	
	Facilities Study	100,000	
	Transfer to CNR - Cover revenue shortfall	50,000	
	Transfer to CNR - Reserve for WRTD 15/16 Add'l. Contribution	25,000	
	Fraud Risk Assessment/Tip Line	30,000	
	Less: amount funded from savings in other line items	<u>(1,000)</u>	
	Total Additional Appropriation		<u>383,000</u>
	Total FY 2014/15 Additional Appropriations		<u><u>\$ 752,570</u></u>



Town of Mansfield Department of Finance

To: Finance Committee, Town of Mansfield
From: Cherie Trahan, Director of Finance 
CC: Matthew Hart, Town Manager
Date: October 7, 2015
Re: Policies and Procedures Update

- Beginning in mid-June all departments and agencies that we serve were trained on the new Policies and Procedures. Everyone who was trained was asked to read the agreement and sign a form stating that they understand the procedures and will abide by them, effective July 1, 2015. Since that date, the Finance Department has been monitoring all activity coming through the department for compliance with the updated procedures. We have found that some procedures needed further explanation and clarification, so Amy Meriwether has been providing ongoing guidance to departments. Approvals for purchases are being held back until the appropriate documentation from the departments has been received.
- Last month, I provided draft recommended changes to the Mansfield Board of Education policies as they relate to the Finance Department. These changes are being reviewed by the Board's attorney at this time.
- In the upcoming month, I will be working on any changes that may need to be made to Region 19's policies. The goal is to make sure the policies for all entities do not conflict with the Finance Department Policies and Procedures.
- Andy Howat was hired as our new accountant and began work on Monday, October 5, 2015. He comes to us from a public accounting firm in Tolland and has passed the CPA exam. In addition to preparing salary budgets for the two Boards of Education, being responsible for grants management, and various other accounting functions, I have asked Andy to begin working on draft RFP/RFQ procedures and grants management procedures..
- On November 9, 2015 BlumShapiro will return for follow up testing.



Town of Mansfield Department of Finance

To: Matt Hart, Town Manager
From: Cherie Trahan, Director 
Date: September 10, 2015
Re: Fraud Risk Assessment RFP Results

As you know, on August 4, 2015 the Town of Mansfield posted a Request for Proposal (RFP) for a Fraud Risk Assessment. The RFP was posted on the Town's website, the State of Conn. Department of Administrative Services Procurement Portal, and was mailed directly to several Connecticut firms that provide these types of services – BlumShapiro, CohnReznick, and Forensic Accounting Services, LLC. We received four proposals:

CohnReznick	\$27,500
350 Church Street	
Hartford, CT 06103	
BlumShapiro	\$35,000
29 South Main Street	
West Hartford, CT 06127	
Sobel & Co, LLC	\$45,000
293 Eisenhower Parkway	
Livingston, NJ 07039	
(Partnering with Weinstein & Anastasio, PC located in Hamden, CT)	
Navigant Consulting, Inc.	\$285,000 based on a blended hourly rate of
30 South Wacker Drive, Suite 3100	\$325
Chicago, IL 60606	

After reviewing all proposals, I recommend that we accept the low bidder of CohnReznick at a cost of \$27,500. My recommendation is based on the following comparison:

Navigant Consulting, Inc. \$285,000:

Navigant Consulting came in with a significantly higher proposal. They are an international consulting firm with nearly 3,500 consultants, worldwide. They were incorporated in 1996 and are registered to do business in Connecticut. While their qualifications and experience would qualify them for our risk assessment, the scope of what they are proposing is much broader than what we need following the BlumShapiro Operations and Financial Control Review. It doesn't appear that they reviewed the report BlumShapiro prepared in order to prepare this proposal, but instead plan to review the report as one of their first steps in their process.

Sobel & Co, LLC \$45,000:

Sobel & Co, LLC is based in New Jersey, however they are partnering with Weinstein & Anastasio, PC from Hamden, CT for this project. In fact, they merged on September 1, 2015. The lead on this project, Rebecca Fitzhugh, has 16 years of public accounting experience, is a CPA, is certified in Financial Forensics by the AICPA, is a Certified Fraud Examiner, and is a Certified Inspector General Auditor. I believe they are fully qualified to perform this engagement. Their approach includes gathering statistical data to measure the cost of fraud and error to the Town, and to determine how well protected the Town is. The review process is similar to the other proposals however upon the completion of the "Fraud Cost and Resilience Review", they will provide a detailed report with commentary and individual ratings for each of the factors they will consider. For the additional cost, I'm not convinced these ratings will provide us with any additional useful information.

BlumShapiro \$35,000:

BlumShapiro, as you know is the largest regional accounting, tax and business consulting firm based in New England. We have worked with their governmental accounting division, consulting division and fraud experts in the past. This project would be handled by Richard Finkel, Litigation Services and Business Valuation Group. While they are a separate group from BlumShapiro's Consulting Group which Jeff Ziplow is part of, being able to access Jeff Ziplow's for insight into our processes I believe would be beneficial. Unfortunately, while they submitted a bid, the courier delivered the bid after the deadline and therefore their bid is disqualified.

CohnReznick \$27,500:

CohnReznick is a national firm with their corporate office based in New York, NY. This engagement would be performed from their Hartford office by Joseph Centofanti. They have provided internal audit and other consulting services to many municipalities and boards of education in Connecticut, including Coventry, East Haven, Hartford, Wethersfield, and many others. Joseph Centofanti has over 25 years of experience in financial audit services, operational audits, internal control evaluation and design, and fraud prevention and investigation. He holds the following certifications: Certified Fraud Examiner (CFE), Certified in Financial Forensics from the AICPA, Certified Government Financial Manager. Their work plan is similar in process to the other proposals. Joe Centofanti performed a fraud investigation for Eastern Highlands Health District and recommended a number of changes to their cash and invoice processing a number of years ago. It was a successful process and we recuperated funds from the former employee.

CohnReznick provided the lowest proposal and it comes within the budget for this project. The next lowest qualified bidder is Sobel & Co at \$45,000, \$15,000 higher than our budget of \$30,000. Since the forensic audit that CohnReznick did for the Mansfield Board of Education took longer than anticipated, I contacted Joe Centofanti to confirm what his proposed timeframe would be for this project. He confirmed that he would have no problem completing the project in the 2 – 3 month timeframe as I asked. The scope of a fraud risk assessment is more defined and procedures are more concrete (best practice) than what was dealt with on the forensic audit. That audit should have been more investigative in nature than what we are asking for in this project. Lastly, I asked Joe Centofanti for a sample of his work on a similar audit. He provided a copy of the Town of Southbury's Internal Audit Report. We can expect a fraud report similar in format to the Parks & Recreation, Senior Center, Social Services Departments of Southbury's internal audit report. I recommend we accept the CohnReznick proposal for a fraud risk assessment for a thorough review of all cash procedures, use of Town assets, etc.

Let me know if you would like to discuss further.

Attachments: J. Centofanti Email dated 9/16/15 Re: RFP Question
Town of Southbury, CT Internal Audit Report No. 5

Cherie Trahan

From: Joseph Centofanti <Joseph.Centofanti@CohnReznick.com>
Sent: Wednesday, September 16, 2015 10:57 AM
To: Cherie Trahan
Subject: RE: RFP Question
Attachments: Southbury Report.5.pdf

Cherie,

Here is a sample report that is an internal audit report, which is a little more than a fraud risk assessment, but it contains departments where a fraud risk assessment or internal control evaluation was performed (Parks and Recreation, Senior Center, Social Service Department). Other sections have the open finding from previous risk assessment and or related testing. The report format is set up to describe the condition and then provide a recommendation to address the condition.

The fraud risk assessment report would just have the Background, Conditions and Recommendations components, like the departments noted above.

We would be able to deliver the report in a different format if you had something else in mind.

Please let me know if you have any questions or need anything else.

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COHN  REZNICK

Town of Southbury, Connecticut

Internal Audit Report No. 5



TOWN OF SOUTHBURY, CONNECTICUT

INTERNAL AUDIT REPORT

REPORT NO. 5

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**Town
Clerk**

TOWN CLERK DEPARTMENT TESTING

OBJECTIVE

To analytically test revenues collected and recorded by the Town Clerk's Department.

BACKGROUND

Payments for various fees are collected by the Town Clerk's Department staff. Monies are deposited into a separate bank account maintained by the Town Clerk. Periodically (at least monthly), the monies are then transmitted to the Finance Department.

PROCEDURES

1. We obtained reports from the Town Clerk's collection software detailing the fees collected for the period January 1, 2014 through December 31, 2014 and compared the amounts from the report to the amount recorded in the general ledger.
2. We reviewed the prior report recommendations and updated the status.

RESULTS OF PROCEDURES PERFORMED

We completed an analytical review of certain revenue accounts using the number of permits issued compared to the revenue recorded in the general ledger. We were able to reconcile the total amounts collected from January 1, 2014 through December 31, 2014 for dog licenses, recording fees, marriage licenses and conveyance taxes from the Town Clerk software to the Town general ledger revenue accounts. (ACCEPTABLE)

STATUS OF RECOMMENDATIONS FROM PRIOR REPORTS:

Below are the recommendations from our prior evaluation that were reviewed by the testing described and completed above.

2011-1 TOWN CLERK

CONDITION (IC):

Currently all computers in the office can be used as a "register" to record transactions. For most transactions processed, the employees all use the same register at the front counter.

During our review, we noted that there are no unique separate logins for each Town Clerk Department employee. All employees process transactions on the same computer using the same login.

RECOMMENDATION:

We recommend that each Town Clerk Department employee be assigned a unique login ID and that the login be used for all transactions processed by that employee.

TOWN CLERK DEPARTMENT TESTING

STATUS OF RECOMMENDATIONS FROM PRIOR REPORTS:

RECOMMENDATION:

We also recommend that each employee log off after processing each transaction or when another employee will be responsible for processing transactions (break, lunches, end of day, etc.).

STATUS

Implemented.

**Finance
Department -
Purchasing**

FINANCE DEPARTMENT - PURCHASING

OBJECTIVE

To test compliance with the Town's currently approved purchasing policy, including bid limits, documentation, approvals and posting of information to the Town's website.

BACKGROUND

The Town's purchasing policy has specific requirements for certain types of services, exemption of certain services, procedures for purchase thresholds, and documentation and approvals. The exemptions as listed in the Town's purchasing policy are as follows:

1. Insurances
2. Payments to Town entities appropriated in Town budget
3. Utilities
4. Legal Services
5. Accounting services
6. Actuarial services
7. Insurance broker services
8. Items purchased from State or other bid lists
9. Refunds of overpayments

The policy also contains specific procedures for the procuring of rental equipment as needed by the Public Works Department.

SCOPE

- Based upon that analysis as described below, we selected 13 purchase orders over \$20,000, 23 purchase orders between \$10,001-19,999, and 5 purchase orders below \$10,000 for review.
- We reviewed 10 purchase orders for rental equipment.
- We agreed selected awards as posted on the Town's website to the purchase order.

PROCEDURES

We performed the following procedures:

1. We obtained a listing of purchase orders that were issued for the calendar year 2014.
2. We performed an analysis of all purchase orders issued over \$10,000 and classified them into the categories that are defined in the Town's purchasing policy.
3. We then identified the vendors we had tested in the prior year and removed them from the population tested for this report. The results of our analysis are presented on **EXHIBIT 1**.

FINANCE DEPARTMENT - PURCHASING

PROCEDURES

4. Based upon the classification completed on **EXHIBIT 1**, we determined the purchase orders to be reviewed. Purchases that were exempt from the Town's policy were noted in the classification on **EXHIBIT 1** and not included in the population that we tested. Testing was performed on State bids as noted below and on any bid waivers.
5. We judgmentally selected 5 purchase orders issued in calendar year 2014 that were for amount between \$1,000 and \$9,999 and reviewed the related documentation to test whether the purchases made were in compliance with the Town's purchasing policy.
6. For the purchases orders \$10,000 and over that were selected for testing, we requested the related documentation for the bid or quote, as applicable and reviewed the documentation provided for compliance with the Town's purchasing policy.
7. For purchases identified as state bids, we verified that the item was on the state bid list on the Department of Administrative Services website.
8. We reviewed the process for bidding rental equipment and evaluated compliance with the Town's purchasing policy.
9. We reviewed the selection process and award process for on call engineering services for compliance with the Town's purchasing policy.
10. We selected a sample of awards posted on the Town's website and agreed the award to the purchase order issued by the Town.
11. We performed an analysis of the purchase orders issued for calendar year 2014 and classified them into categories by amount of purchase order and total value of purchase order for that category.

RESULTS

The results of our testing were as follows:

Procedures 1-4

Based upon our review and analysis of the 725 purchase orders issued in calendar year 2014 we classified the purchase orders by type as defined in the Town's purchasing policy. The analysis presents the number of purchase orders issued by category that were selected for review (over \$10,000 plus 5 purchase orders under \$10,000) and the number of purchase orders tested. The result of the analysis is presented in **EXHIBIT 1**.

FINANCE DEPARTMENT - PURCHASING

Procedures 5-8

- A. For bids/purchase orders reviewed between \$1,000 and \$10,000 we noted the following:
- The quotes were received from the vendors and documented on the purchase order (notes section) and reviewed as part of the approval of the purchase order by the First Selectman.
 - For one park and recreation purchase order, no documentation of quotes received was available for review.

CONCLUSION:

The Town's current bidding policy was properly followed for items selected for testing for purchase orders issued between \$1,000 and \$10,000 with one exception. See EXHIBIT 2 for the detailed results of our testing.

2014-1 RECOMMENDATIONS

We recommend that the Town's purchasing policy be followed or that the policy be reviewed and updated as to the acceptable documentation requirements for this level of purchase.

Consideration can be given to allow phone quotes for this level of purchase (or another level such as \$5,000) and that quotes be required to be noted on purchase order for review and approval by the First Selectman.

STATUS

Implemented. The Town's updated purchasing policy approved and adopted by the Board of Selectman on January 15, 2015 addressed this item.

Procedures 5-8

- B. Based on our review of purchase orders from \$10,001 – \$20,000 we noted the following:
1. 20 of the quotes were submitted in writing.
 2. 1 purchase order was a bid waiver.
 3. 1 purchase order was a proprietary vendor.
 4. 1 purchase order was CRCOG Bid.
 5. 3 of the 20 quotes submitted in writing noted in item 1 above, the documentation of the bid results and related approvals were not completed.
 6. 14 of the bid/quotes were not reported to Board of Selectman.

CONCLUSION:

See EXHIBIT 2 for the detailed results of our testing.

FINANCE DEPARTMENT - PURCHASING

Procedures 5-8

2014-2 RECOMMENDATIONS

1. We recommend that the Town's purchasing policy be followed with respect to requiring written quotes be obtained and retained from vendors.
2. We recommend that the bid awards be reported to the Board of Selectman.
3. We recommend that proper documentation be obtained and retained for all bids and awards.

STATUS

1. Implemented.
2. Not implemented.
3. Implemented.

C. Based on our review of purchase orders over \$20,000 we noted the following:

1 instance where the bid procedures were not followed due to the following:

The one instance relates to Milone and MacBroom where the State requested that the town expand the Town project to include the Southbury Training School and then reimbursed the Town for the work.

1. 1 instance where there was no RFP since the purchase order was not bid.
2. 15 instances where there was no documentation that the request for proposal was published in local papers. (counting the equipment bid as 2 instances since 2 PO's were tested)
3. 3 instances where the RFP was not posted to the Town's website.
4. 8 instances of there being no documentation of the approval of the RFP by the Town Treasurer
5. 8 instances of there being no documentation of the approval of the RFP by the First Selectman.
6. 1 instances where the bid opening was not announced.
7. 1 instances where the bid tally sheet was not prepared and maintained.
8. 5 instances where the bid tally sheet was not signed by the department head.
9. 1 instances where adequate documentation as not retained.
10. 1 instances where the bid tally sheet was not posted to the Town website.
11. 3 instances where for purchases from local vendors, there was no documentation of delinquent tax verification.
12. 1 instances where the bid was not awarded at a BOS public meeting and documented in minutes.
13. 1 instances where the award was not posted to the Town's website.
14. 6 instances where there was no witness signature on the bid tally sheet.

FINANCE DEPARTMENT - PURCHASING

CONCLUSIONS:

In general, the Town is complying with the majority of the requirements of the Town's purchasing policy, but needs to improve the documentation of certain requirements of the policy such as approval of the RFP by the First Selectman and Treasurer and review of delinquent tax status of local vendors.

Improvement is also needed on ensuring that the required documentation be properly included in the bid file, including documentation of required approvals.

See **EXHIBIT 2** for the detailed results of our testing.

2014-3 RECOMMENDATIONS

1. We recommend that a standard bid file and format be developed and implemented to properly document compliance with the Town's bid policy. A related checklist should also be developed that contains a detailed list of the documentation requirements to be included in the file and procedures to be completed. The checklist should also require a sign off by the person completing the procedure or completing the required documentation.

The checklist should document the items noted above such as approval of the RFP's by the Treasurer and the First Selectman, the delinquent tax check, and the posting of the proposal and bid results and award to the Town's website. Items that should be included in the checklist would be the same item as shown on **EXHIBIT 4**.

2. We recommend that the bid awards be reported to the Board of Selectman.
3. We recommend that proper documentation be obtained and retained for all bids and awards.

STATUS

1. Not implemented for items tested. Reviewed documentation from other bids from late 2014 and noted the checklist that was implemented.
 2. Implemented for most of the items tested. The 1 instance it was not followed related to the Milone McBroom/State project discussed above.
 3. Implemented.
- D. Based on our review of purchase orders for equipment rental we noted the following:
1. 9 instances where the bid was not posted to the Town's website. The bid summary tally sheets were prepared by the Public Works director, but they were not posted to the website.
 2. The Town properly followed the purchasing policy procedures for obtaining and selection of the equipment rental bids result for each vendor.

FINANCE DEPARTMENT - PURCHASING

CONCLUSIONS:

In general, the Town is complying with the majority of the requirements of the Town's purchasing policy for equipment rentals, but needs to develop a process to document the required approvals and needs to follow the policy of posting the equipment rental awards to the website.

See EXHIBIT 2 for the detailed results of our testing.

2015-1 RECOMMENDATIONS

We recommend that all equipment rental awards summary sheets be posted to the Town's website by project as required by the Town's policy.

2014-4 RECOMMENDATIONS

1. We recommend that the Town develop and implement a checklist or other process to document the First Selectman approval of the award of equipment rental bids over \$5,000.
2. We recommend that the intent of the policy be clarified as to whether for equipment rental purchases over \$20,000 a seal bid is required, or some additional level of approval be required.
3. We recommend that the policy be updated to address how purchase orders should be prepared to document compliance with the Town's purchasing policy. Purchase orders should be issued by project or documented by project on the purchase order.

STATUS

1. Not implemented.
2. Implements in policy adopted January 15, 2015.
3. Implemented.

E. Procedure 9 ON CALL ENGINEERING

For on-call engineering, we selected 4 purchase orders to test for Milone and MacBroom. Three purchase orders were over \$20,000 and one purchase order was between \$10,001 and \$20,000.

Purchase orders 2331 and 2165

For the Ballantine Park Riverbank project, we selected 2 purchase orders totaling \$42,400 for testing. In the June 19, 2014 minutes, the Board of Selectman waived the bid and awarded the project to Milone and MacBroom.

FINANCE DEPARTMENT - PURCHASING

Purchase order 1441

This purchase order relates to the Southbury Training School. For this project there was a Memorandum of Understanding with OPM for the project. Milone and MacBroom was already engaged to complete another project regarding this school. The State decided that the project needed to be expanded and that the Town should use Milone and MacBroom to do the work since they were already engaged and performing services at the facility. The State subsequently reimbursed the Town for the project. This was included in the instances where the bid policy was not technically followed.

Purchase order 2381

This purchase order relates to the Pre-disaster mitigation grant and was bid by CRCOG. Two bids were submitted and Milone and MacBroom was chosen.

2014-5 RECOMMENDATIONS

1. We recommend that the Town's purchasing policy be updated to specifically address the permissibility and/or the Town's policy on the bidding and awarding of on-call services. The policy should address the thresholds that this type of bid apply to vs requiring sealed bids. The policy should also contain the details on how projects must be quoted using an on-call firm, how a firm can be selected and how it should be documented.
2. If determined to be permissible, then we recommend that the policy address the current services that are bid in that manner (snowplowing) and any additional services approved for that type of bid. The policy should also have a process for approving/prohibiting additional services that can be bid in that manner.
3. As stated in the Board of Selectmen resolution to award the bridge engineering services to one of the on call engineering service vendors, consideration should be given to setting a limitation on the size of the project that can be awarded under an on call service bid.
4. We recommend that the current policy be updated to include a statement that only procedures, terminology and practices expressly allowed in the policy are allowable and any not expressly allowed are disallowed. The policy should allow an efficient process for updating the policy for items not currently addressed in the policy. This process should include who has the authority to approve any updates to the policy.

STATUS

1. Implemented in the January 15, 2015 policy.
2. Snowplowing will be formally bid after the current arrangement expires.
3. Implemented in the January 15, 2015 policy
4. Considered during revision of policy completed on January 15, 2015.

FINANCE DEPARTMENT - PURCHASING

Procedure 10

Based upon our agreeing of awards posted on the Town's website to the purchase order issued, we noted the following:

1. For all 10 items that had known award amounts (not per ton or on call, etc.) we were able to agree the award amount to a purchase order.
2. For 9 of the items, the award amounts were not posted to the Town's website. The public works department had the award summary sheets and printed them for us.

2014-6 RECOMMENDATIONS

We recommend that purchase orders be issued for the award amount. This will allow the proper accountability from the award to the recording and monitoring in the accounting system.

STATUS

Implemented.

Procedure 11

We performed analysis on the purchase order activity for calendar year 2014 and classified them into categories by amount of purchase order and total value of purchase order for that category.

The analysis provides perspective on the level of activity by purchase order amount that provides the Board and management information that may be useful when considering recommendations in this report or other updates to the purchasing policy.

The results of this analysis is presented on EXHIBIT 3A.

FINANCE DEPARTMENT - PURCHASING

Additional Considerations - Bid Policy

Equipment rental purchase procedures

During our testing, we noted that for equipment rental bids, it did not appear to have a requirement to perform a delinquent tax check before awarding the contract.

We recommend that the Board consider whether a delinquent tax check needs to be performed for this type of purchase.

STATUS

Revised bid policy adopted as of January 15, 2015.

Structure of Purchasing Policy

Currently the Town's purchasing policy addresses approximately 10 different types of purchases. Each of the purchases has specific requirements. In many cases the requirements are similar, but may be described differently. In many cases the difference may be minor.

We recommend that the purchasing policy be reorganized to present the requirements for each type of purchase on an incremental basis, beginning with the lowest level of requirements and building up to the highest level of effort and documentation required.

This will ensure the same terminology for each level and type of purchase, and establish clearer lines for each level.

It has been noted by the Board that a "cheat sheet" of the policy would be helpful in order to manage and monitor the policy.

EXHIBIT 4 is a very rough example of both the graduated requirements for each type of purchase discussed above and the "cheat sheet" that may help clarify the requirements of the town's purchasing policy.

The example is incomplete and does not represent completely the Town's current policy. It is presented for discussion and consideration by the Town as a tool to update the policy and communicate the policy requirements.

FINANCE DEPARTMENT - PURCHASING

STATUS OF RECOMMENDATIONS FROM PRIOR REPORTS:

Below are the recommendations from our prior reports that were reviewed by the testing described and completed above.

2012-C RECOMMENDATION:

We recommend the Town develop and implement standard documentation requirements for the bid process to ensure consistent and complete documentation of the bid process and the results. The required forms/format should be attached to the policy.

The documentation requirements should include the following:

- Standard required documentation format for purchases from \$10,000 to \$20,000
- Standard required documentation format for purchases over \$20,000 (sealed bids)
- Bid waiver form/documentation

We also recommend that certain documentation be required to be signed by the employees who obtain the information (quotes) or participate in the process (bid tally sheet).

STATUS:

Not implemented. Recommendation updated See Recommendation 2014-3.1.

2012 A RECOMMENDATION

Currently, it appears that the Town uses certain vendors and/or local vendors for recurring purchases. Often these vendors are used for purchases below \$10,000, although annual spending may exceed this amount. In some instances the Town may informally spot the vendor's prices against other vendors.

We recommend that the Town consider a more thorough analysis of vendors to determine any other types of goods and services that may be similar to those above. The Town also may consider bidding these types of service and selecting and approving vendors (approved vendor list) to provide those goods or services at the bid amounts.

STATUS

Per review of minutes, the Board of Finance determined that the current procedures with respect to recurring purchases are adequate.

**Finance
Department -
Accounts Payable**

FINANCE DEPARTMENT - ACCOUNTS PAYABLE

OBJECTIVE

To perform a test of cash disbursement transactions to ensure that they are processed in accordance with established procedures including the use of purchase orders (when required), proper approvals, proper account distribution and adequate documentation.

BACKGROUND

Cash disbursements should be properly authorized and approved in accordance with the Town purchasing policy and procedures. All disbursements should be made based upon adequate supporting documentation and appropriately charged to the proper account.

SCOPE

We selected 20 cash disbursements for testing.

PROCEDURES

1. We examined supporting documentation
2. We reviewed the account to which the disbursement was charged
3. We looked for evidence of approval on the supporting documentation

RESULTS

Based on our testing, the internal controls over cash disbursements are adequate (ACCEPTABLE).

We did not identify any new recommendations for 2015.

STATUS OF RECOMMENDATIONS FROM PREVIOUS REPORTS

No previous comments to be addressed.

**Finance
Department -
Payroll**

FINANCE DEPARTMENT - PAYROLL

OBJECTIVE

To perform a test of payroll transactions to ensure that payroll rates are properly authorized and that time worked is properly documented with timesheet or time cards as appropriate.

BACKGROUND

Payroll should be paid based upon authorized rates for actual time worked. Changes in pay rates should be properly approved and monitored. Current procedures are that annual increases (if any) are provided in letter format to the employee from the First Selectman. All other changes are documented on a payroll change form.

SCOPE

We judgmentally selected 20 employees from the payroll register during the period January 1, 2014 through December 31, 2014.

PROCEDURES

For each employee selected, we performed the following procedures:

1. Agreed pay rate to authorized rate in personnel file
2. Agreed hours worked to timesheet or time card (public works)
3. Reviewed department head approval of timesheet or time card (public works)
4. Recalculated gross pay
5. Reviewed payroll change reports approved by Selectman's office

RESULTS

Based on our testing, the internal controls over payroll are adequate. (ACCEPTABLE)

There are no recommendations as a result of these procedures.

STATUS OF RECOMMENDATIONS FROM PREVIOUS REPORTS:

No previous comments to be addressed.

**Parks
and
Recreation**

PARKS AND RECREATION

OBJECTIVE

To test the internal controls over the cash receipts (including cash vs check payments).

BACKGROUND

The Parks and Recreation Department collects fees for various programs offered by the Town. Registrations can be completed in person or on-line. The Town does not accept credit cards unless the registration is completed on-line. If a resident wants to pay with a credit card, they are instructed to register for the program using the terminal in available to residents at the Parks and Recreation Department. The transactions are processed through a specialized recreation software program called Rec Trac.

SCOPE

We selected 10 revenue transactions from the general ledger for the period January 1, 2014 through December 31, 2014.

PROCEDURES

1. We agreed the amount collected to the register report.
2. We agreed the amount collected by payment type (cash vs check) to the amount deposited.
3. We agreed the amount collected by program type to proper recording in the general ledger.

RESULTS

Based on our testing, the internal controls over the Park and Recreation Department collections are adequate. (ACCEPTABLE)

2015-2 RECOMMENDATION:

We recommend that all transactions be recorded in Rec Trac, including amounts received from the basketball booster club or other customers/organizations.

STATUS OF RECOMMENDATIONS FROM PREVIOUS REPORTS:

Below are the recommendations from our prior evaluation that were reviewed by the testing described and completed above.

2012-29 RECOMMENDATION:

We recommend that the authority to void/reverse transactions should be only with management or that a void report be produced and approved daily as part of the reconciliation process by someone other than the employee processing transactions. The void report should be approved by the Director and retained in the file with the daily register reports.

PARKS AND RECREATION

STATUS:

Not implemented.

Currently all employees have the same rights to the Rec Trac software program.

Although it appears that transactions are not voided, but corrected through the edit report, a void/transfer or other exception report should be reviewed and approved by the Department Head.

It was noted that transactions could not be deleted.

2014-7 RECOMMENDATION

Based upon recent incidents that have occurred relating to the operations of the Parks and Recreation Department, we recommend that the Board consider a more in depth review of the Department's internal controls and operations. This will allow the identification of current risks, opportunities for minimizing the identified risks and increasing efficiency of operations.

STATUS:

Review of internal controls and operations performed was completed. See the next section.

PARKS AND RECREATION

We performed a review of the internal controls over the cash receipt collection process for the Parks and Recreation Department. The review included the following areas:

1. Recreation programs
2. Basketball boosters
3. Pavilion rentals
4. Summer concerts
5. Tennis permits
6. Pool passes
7. Banner sales/advertising
8. Donations
9. Refunds

1. Recreation Programs

Observations/Conditions:

Based upon our review of the current policies and procedures for the collection process for recreation programs, we noted the following:

- The Town does not accept more than \$20 in cash from customers. When cash is received, a pre numbered receipt is provided to the customer. The receipts issued are not reconciled to the Rec Trac reports.
- Many programs pay the instructor based upon the number of registrations and therefore the instructors will notify the Parks and Recreation Department if the number attending the class is greater than the number registered.
- All Park and Recreation employees have the same level of rights to the Rec Trac software program.
- The Town uses two credit card processors for customer transactions, one for on-line payments and one for swipe payments completed in the Park and Recreation office.
- Three reports are run to balance activity: a cash and check transactions report, an online credit card transaction report and a swipe credit card transaction report.
- Deposits are made weekly or when total cash and check collections reach \$10,000.
- The checks are not stamped for deposit only when received. They are stamped at the time the deposit is prepared to send to the Treasurer's department.

PARKS AND RECREATION

2015-3 RECOMMENDATION:

We recommend that the pre numbered receipts be reconciled to the Rec Trac register reports for the cash amount for each deposit.

2015-4 RECOMMENDATION:

We recommend that the employee processing transactions have rights to only that function and be restricted from performing management type functions such as the ability to change the fee amount for programs.

2015-5 RECOMMENDATION:

We recommend that the Town review the need for having 2 different types of credit card processing methods to see if they can be combined to decrease cost and increase efficiency.

2015-6 RECOMMENDATION:

We recommend that the Town consider producing a total report for the daily activity in addition to the 3 separate reports to ensure accountability for the daily activity.

2015-7 RECOMMENDATION:

We recommend that all checks received be immediately stamped for deposit only.

2. Basketball Boosters

Observations/Conditions:

- The Basketball Booster Club operates the "Little Swishers" basketball program. For many years (estimated to be 15 years), the Club has worked with the Town on the basketball program, providing support to the Parks and Recreation program for such things as purchase of equipment, benches, uniform upgrades and scholarships.
- Currently, the Club operates the Little Swishers basketball program. The program is listed in the Town's Park and Recreation program brochure as a Town program, but the monies collected for the program are not deposited as are the other Town programs and the monies are not recorded in Rec Trac. Instead, the Parks and Recreation Department collects the monies for the registration fees and then holds until the monies are picked up by the Club Treasurer.

PARKS AND RECREATION

Observations/Conditions:

- The Club has its own bank account, but it unknown whether the Club has its own tax identification number or the clubs legal status (type of entity).
- Normally, Booster Clubs support a particular sports team with monies they generate through fund raising. They do not normally generate monies by operating Town programs and receiving the registration fees from the program.

2015-8 RECOMMENDATION:

We recommend that the Town review and obtain further information about the Booster club and the current arrangement with the Town.

We recommend that if the basketball program is a Town program, that the monies collected be processed through the Rec Trac software program and be deposited with all other registration fees.

We recommend, if necessary, that a formal agreement be developed between the Town and Booster Club that clearly define the operations, responsibilities and liabilities related to cash receipts and tax reporting.

3. Pavilion rentals

Observations/Conditions:

- An application must be completed to reserve the pavilion. The applications are not pre numbered.
- Pavilion rental reservations are logged on a calendar. The reservation must be confirmed within 48 hours with a 50% deposit.
- The pavilion rentals fee amounts are not a standard amount due to the differences in fees for residents and nonresident, nonprofits and whether they are renting the grill.
- The Town's Outside Properties Department must be notified of the schedule to open the pavilion and grills, etc.

2015-9 RECOMMENDATION:

We recommend that the pavilion applications be pre numbered and that at least annually, the sequence of applications approved be reconciled with the amounts recorded as revenue in the general ledger.

We also recommend that the amounts deposited and recorded in the general ledger be reconciled to the calendar and the records of the Town's Outside properties departments for openings of the pavilion and grill.

PARKS AND RECREATION

4. Summer concerts

Observations/Conditions:

- The Town provides free movie nights and concerts during the summer.
- As a convenience, the Town sells popcorn, soda, water and slushies at the events for 50 cents.
- The water and soda are purchased (on account) from the local grocery store.
- The monies collected are recorded in Rec Trac and then include in the deposit.

2015-10 RECOMMENDATION:

We recommend that the Town consider (cost benefit) reconciling the amount purchased for soda and water and the amount deposited for sales of those items. This would require an inventory of those items being taken at the beginning and end of the event. It would also require that the monies for soda and water be identified and accounted for separately in Rec Trac.

5. Tennis permits

Observations/Conditions:

Tennis court permits are issued at a cost of \$1. The customer is issued a receipt and the amount is recorded into Rec Trac as a total for the day/period. The amount is deposited with all other funds collected.

6. Pool passes

Observations/Conditions:

- Cash receipts for pool day passes are collected at the pool and recorded into the cash register using preprogramed keys.
- Supervisor picks up the cash daily and balances to the cash register tape.
- The cash is then brought to the Parks and Recreation office, recounted by the Parks and Recreation clerk, recorded into Rec Trac and included in the deposit.
- The current Supervisor has been responsible for the pool receipts since June of 2014.
- A receipt is prepared for each lifeguard who was responsible for register noting the amount of cash collected.
- It appears that the cash register used at the pool does not have a history tape.
- An attendance sheet is maintained noting the number of each type of pass sold for the day (adult, child, nonresident).

PARKS AND RECREATION

6. Pool passes

Observations/Conditions:

- The attendance sheets prior to the new supervisor taking over cannot be located.
- The design of the pool entrance does not easily allow for additional controls to be implemented (tickets) to improve accountability.
- The amounts recorded in Rec Trac for pool passes sold for the past 3 fiscal years was as follows:

Fiscal year 2013	\$1,852
Fiscal year 2014	2,291
Fiscal year 2015 (5/13/15)	9,251

2015-11 RECOMMENDATION:

We recommend that a receipt be provided to the pool Supervisor when the cash is transmitted to the Parks and Recreation clerk.

7. Banner sales/advertising

Observations/Conditions:

- The Parks and Recreation Department has an agreement with a vendor who sells banners that are displayed at the Town's recreation fields.
- The agreement currently provides that the vendor collects the monies and then provides a check to the Town for their portion set by the contract.
- The vendor does all the work with respect to sales and production of the banners.
- The Park and Recreation Department gets a portion of the fee paid by the vendor to display their banner at the Town's recreation field.
- There is no verification of the banners displayed at the fields to determine if the Town has received all the monies they were entitled to.

2015-12 RECOMMENDATION:

- A. We recommend that the Town and/or Town Attorney review the contract with the vendor (service agreement) to determine that it properly protects the interest of the Town.
- B. We also recommend that the Town consider whether the payments should be received by the Town and then payments made to the vendor.
- C. We also recommend that the Town consider a formal policy regarding the review of all contracts entered into by the Town and who has the authority to or who should approve the signing of any contract.

PARKS AND RECREATION

8. Donations

Observations/Conditions:

- Certain local clubs have made contributions to the Town for the use of the various recreation fields. In addition, donations have been received from local vendors and local residents.
- The donations are recorded in the Park Improvement fund.
- For fiscal year 2013 donations totaled approximately \$7,000 and \$6,000 in fiscal year 2014.

9. Refunds

Observations/Conditions:

- Park and Recreation's refund policy is included in the program brochure
- Refunds are issued when program is cancelled (100% of fee)
- For other cancellations, refunds are processed less a \$15 processing fee
- Refunds are processed by the Treasurer's Department
- Refunds are approved by the Director or Assistant Director
- The refund is processed before formal approval
- Refunds are entered into Rec Trac
- Currently, the Park and Recreation Department requires the customer to send a letter requesting refund. There is no formal refund request form in use.

2015-13 RECOMMENDATION:

We recommend that the Parks and Recreation Department develop and implement a refund request form to process refunds for program fees. The request form should be formally approved by the Director or Assistant Director before it is entered into Rec Trac or sent to the Treasurer's office to be processed.

**Social
Services
Department**

SOCIAL SERVICES DEPARTMENT

Observations/Conditions:

- Donations are received by Social Services for various purposes such as:
 1. Social Service Department
 2. Fuel Bank (separate entity)
 3. Needy Fund (separate entity)
 4. Food Bank (separate entity)
 5. Gift Cards
 6. Back Pack program
 7. Christmas program
- Requests for assistance are received by the Social Services Department. The requests are not formally made or documented. The request could be made by telephone or by visiting the office.
- The request is evaluated by the Social Service Department and then forwarded to the appropriate entity noted above that can assist.
- The entities process the requests for the amount of assistance that is forwarded by/recommended by the Town. The information is provided to the separate entity on an "intake form" with the invoice to be paid attached (if applicable).
- In some instances, requests for assistance are denied. The denied requests are not forwarded to the entity which provides the assistance for their evaluation.
- No log or other documentation is maintained by the Social Services Department for the families that were provided assistance.

2015-14 RECOMMENDATION:

- A. We recommend that the Town reevaluate the current process of providing recommendations to outside entities on whether assistance should be provided to an individual or family and how much assistance should be provided.

It is not clear why the Town and Social Service Department would take any responsibility for the determination of whether to provide assistance to an individual or family. It would appear that the service the Town should provide is directing the individuals to the agencies with the resources to assist them.

- B. We recommend that if the Town continues to provide recommendations to the outside entities, that a formal agreement be drafted and reviewed by the Town Attorney to define any responsibilities or lack thereof, related to providing the recommendations.
- C. We recommend that all requests for assistance be documented on an intake form or application form and that all forms, including the forms where assistance is not recommended, be provided to the outside entity for review and consideration.

SOCIAL SERVICES DEPARTMENT

2015-14 RECOMMENDATION (continued):

- D. We recommend that all requests for assistance, (intake form or application form) and the related Town recommendation, be approved by the Community Service Director.
- E. We recommend that gift cards received be logged and inventoried. Distribution should be documented (by recipient) and approved by the Community Services Director. A form should be developed and implemented to document the recipient and the Director approval. The same form would be used to verify the inventory balance of gift cards. The inventory should be completed on a period basis (semi-annually).

Senior Center

SENIOR CENTER

General Cash Receipts

Observations/Conditions:

- A receipt book is used to document all amount collected at the Senior Center. The types of fees collected include the following:
 1. Transportation fees
 2. Membership fees
 3. Safe driving course fees (AARP)
 4. Senior dine program/NOW chef program
 5. Donations (memorials) for Senior Center benefit
 6. Programs
 7. Trips
- One receipt book is used for all types of fee cash receipts
- The Senior Center does not currently accept credit cards.

2015-15 RECOMMENDATION:

- A. We recommend that a separate pre numbered cash receipt book be used for each type of fee collected. For each deposit amount and period, the total deposit should be reconciled to the related receipt numbers. This reconciliation should be formally documented.
- B. The Senior Center should investigate the possibility of accepting credit card payments. Since the Senior Center is located in the same facility as the Parks and Recreation Department, it may be possible to set up the Senior Center programs in Rec Trac and utilize the same credit card processing equipment.

1. Transportation

Observations/Conditions:

- Seniors who ride the bus may make a donation, but it is not required. Donations are normally \$2 for an in town trip and \$5 for an out of town trip.
- The monies are provided to the driver of the bus.
- A log is maintained to document the number of pick up and drop offs per day.
- The Senior Center software program has a limited ability to document requests for trips, but it is not used regularly.
- A log is maintained on the envelope for the fees collected.
- Currently, there is not a way to determine the amount of cash that is collected since the donations are voluntary.
- Drivers turn monies in at the end of day. It is counted by Senior Center Coordinator and the driver signs envelope as documentation of agreement with total receipts transmitted.

SENIOR CENTER

2015-16 RECOMMENDATION:

Best practices would be that bus drivers do not handle cash. Due to the voluntary nature of the fees collected, there is no formal record to be able to balance cash deposited against. Implementing a pre purchase/payment system would require a significant amount of staff time and administration (loss cards, accounting, payment balances, etc.).

We recommend that the Town consider installing a locked "donation box" on the buses for those who choose to make a donation. The donation box then could be "removed" and brought to the Office Manager where monies would be counted in the presence of 2 employees. The amount collected would be counted by the bus driver and the Office Manager. The amount collected would be entered on a 2 copy form and signed by both employees. One copy would go to the Treasurer's office with the deposit and one copy would be filed in the Senior Center records.

2. Membership fees

Observations/Conditions:

- The Senior Center has about 600 members. Membership fees are based on calendar year with no prorating.
- Cash receipts are included in an envelope until they are deposited. The envelope listing the member names. The payment is also entered into the senior center database software which allows the member to register for programs.
- The payment information entered into the software is not used to balance deposits or to run any other reports.
- The only way the Senior Center becomes aware of a member who has not paid is when they try to register for a program.
- Registration is done via a scanned card (like a rewards card).

2015-17 RECOMMENDATION:

- A. We recommend that procedures be implemented to formally account for the billing and collection of membership fees.
- B. We recommend that Rec Trac be considered to create a "membership program" that can be used to identify the members that have paid.
- C. We recommend that a either Rec Trac or a separate receipt book, or both, be used to balance and support the deposit for membership fees.

SENIOR CENTER

3. Safe Driving Courses

Observations/Conditions:

- Monies are collected from seniors who sign up for the safe driving course. The course is provided by AARP and the checks are made out by the seniors directly to the vendor.
- This activity is not recorded through the Town's books and records.

2015-18 RECOMMENDATION:

We recommend that the Town develop a policy regarding the Town collecting monies for outside vendor programs. The policy should address the policies and procedures for accounting for and the security of the amount received.

4. Senior dine program/NOW chef program

Observations/Conditions:

- Monies are collected for donation for the NOW chef program and payments for the Senior Dine program. For both programs, the monies collected are put into a locked bag and provide to the program provider.
- This activity is not recorded through the Town's books and records

2015-19 RECOMMENDATION:

We recommend that the Town develop a policy regarding the Town collecting monies for outside vendor programs. The policy should address the policies and procedures for accounting for and the security of the amount received.

5. Donations (memorials) for Senior Center benefit

Observations/Conditions:

- Donations are received from the community for the benefit of the Senior Center. These amounts are deposited as received.

SENIOR CENTER

6. Programs

Observations/Conditions:

- Fees are collected for programs and classes.
- Classes/programs are spot checked against registration information to be sure participants have paid registration fee. This is not documented.
- Monies are collected and deposited. Senior Center Coordinator balances the cash and checks to the details on the envelope, prepares the deposit and receipt voucher and then brings it to the Treasurer's Department.
- No details of the deposits have been retained in the past. The envelope with the details of the individual making the payment was implemented April 1, 2015.
- Pre numbered receipts are issued for each payment, but there is no process in place to balance the cash receipts to the receipts book.

2015-20 RECOMMENDATION:

- A. We recommend that responsibilities for the receipt of cash and the preparation of the deposit be segregated to the extent possible. If possible, an employee should be designated that has primary responsibility for the cash receipt process and another employee for the preparation of the deposit and transmittal to the Treasurer's Department.
- B. We recommend that in addition to the balancing of cash received to the envelope listing the members from which payments were received, that the cash received be balanced to the receipt issued for the applicable time period (Receipt XXXX to Receipt XXXX).

This balancing process should be documented and reviewed and approved by the Office Manager or the Director or an employee not involved in the cash receipt process.

- C. We recommend that a different receipt book be used for each type of cash receipt to allow for the balancing to the receipts issued as described above.
- D. We recommend that the Senior Center consider using Rec Trac to register members for programs.

7. Trips

Observations/Conditions:

- The Senior Center Coordinator receives payments from members for the trips.
- Members sign up for trips and their payment and name is added to the envelope.
- All checks are held (locked in cabinet) until the day of the trip. This is done in case there is a cancellation. Then the check can be returned vs a refund check being processed.
- Pre numbered receipts are issued for each payment, but there is no process in place to balance the cash receipts to the receipts book.

SENIOR CENTER

7. Trips (continued)

2015-21 RECOMMENDATION:

- A. We recommend that in addition to the balancing of cash received to the envelope listing the members from which payments were received, that the cash received be balanced to the receipt issued for the applicable time period (Receipt XXXX to Receipt XXXX).

This balancing process should be documented and reviewed and approved by the Office Manager or the Director or an employee not involved in the cash receipt process.

- B. We recommend that a different receipt book be used for each type of cash receipt to allow for the balancing to the receipts issued as described above.

8. Other items

Observations/Conditions:

- Currently the Senior Center Coordinator prepares the check request for the program instructors (vendors) to submit to the Treasurer's department for payment.
- Currently, the Senior Center does not have a formal refund policy for programs, trips and membership fees.
- Currently, the Senior Center has an unrecorded/informal petty cash fund. The fund had a balance of approximately \$134 as of May 13, 2015. It appears that certain cash receipts were not deposited and instead held as petty cash. The balance was as high as \$400. There is a manual ledger book that accounts for the activity of the petty cash fund account (deposits and withdraws).

There has been an effort to spend down the fund. Monies are generally used for supplies and making copies of the monthly calendar.

2015-22 RECOMMENDATION:

- A. We recommend that vendors be required to prepare their own invoice for services provided. The invoice then should be attached to the check request, approved by the Department and then submitted for payment.
- B. We recommend that the Senior Center develop and implement a comprehensive refund policy for all programs and activity for which fees are charged.
- C. We recommend that the informal petty cash fund, be deposited into the senior center account and that a formal reimbursable petty cash system be established.

**Tax
Collector**

TAX COLLECTOR

OBJECTIVE

To test the internal controls over the cash receipts (including cash vs check payments).

BACKGROUND

The Tax Office collects property taxes, interest and lien fees. The Town has semi-annual collections in July and January.

SCOPE

We selected 25 days to test the collections and related deposits.

PROCEDURES

1. We agreed the amount collected from the register report to the amount deposited, including cash vs check amounts collected.
2. We agreed the amount collected to the proper transmittal to the Finance Department.
3. We agreed amounts collected to proper recording in the general ledger.

RESULTS

Based on our testing, the internal controls over cash receipts in the Tax Department are adequate. Cash vs check payments are properly processed and agreed to the amounts deposited. (ACCEPTABLE)

STATUS OF RECOMMENDATIONS FROM PREVIOUS REPORTS:

No previous comments to be addressed.

**Debit Card
Purchases**

DEBIT CARD PURCHASES

OBJECTIVE

To perform a review of the use of the Town debit card and compliance with adopted procedures.

BACKGROUND

In November 2013, the Town began using a debit card for certain purchases. Purchases generally relate to IT and the Selectman's office. There should be appropriate controls around the use of debit card purchases to prevent abuse.

SCOPE

We determined the population of debit purchases made and determined procedures followed for these transactions.

PROCEDURES

We requested a log of the debit card transactions from November 2013 – December 2014.

RESULTS

Based on our review, we noted that 56 debit card transactions occurred during this time period. Of these transactions, 20 related to IT purchases (36%) and 12 related to purchases from the Selectman's office (21%).

We determined that Treasurer has control of the debit card and departments request the debit card in order to make a purchase. Once the purchase is made, the debit card is returned with the supporting documentation for the purchase either in hardcopy or email format. (ACCEPTABLE)

Employee Reimbursements

EMPLOYEE REIMBURSEMENTS

OBJECTIVE

To perform a review of employee reimbursements (mileage and other) and review the process, forms, and related approval process.

BACKGROUND

Employee reimbursements should be properly supported and approved.

SCOPE

We selected 4 employees who received reimbursements during calendar year 2014 and reviewed supporting documentation and approval for the reimbursement.

PROCEDURES

1. We requested a vendor history for calendar year 2014.
2. We narrowed that list down to only include people paid during the year (123 people).
3. We then compared the list of names to a list of town employee names to determine which employees were reimbursed expenses (27 employees).
4. We judgmentally selected 4 employees to review supporting documentation and approvals.

RESULTS

Based on our review, we noted there is not a standard form that employees are required to submit to request reimbursement for business related expenses.

Also, the Town does not require a standard mileage form to be reimbursed for mileage.

We also noted that 2 of the employee reimbursements selected did not have documentation for business purpose and 1 of the employee reimbursements selected was not approved by a department head.

2015-23 RECOMMENDATION:

We recommend that a standard form be developed and implemented for employee reimbursements which should include documentation of the business purpose, employee signature, and approval of the reimbursement.

A standard form for mileage reimbursement should also be developed and implemented that should include the business purpose, employee signature, and approval of the reimbursement.

Landfill

LANDFILL

OBJECTIVE

To agree the amount of billings and collections for landfill from the amount collected at the landfill to the amount of revenue recorded in the general ledger.

BACKGROUND

Most of the landfill fees are collected offsite and brought to the finance office for deposit and recording in the general ledger. For a few accounts, the finance office prepares an invoice for the amount due and subsequently collects this revenue. These amounts are recorded as receivables in the general ledger when the invoice is created.

SCOPE

We selected 6 cash receipts from the landfill source records to test the collections and related deposits.

PROCEDURES

1. We agreed the amount collected from the landfill receipts summary to the amount deposited, including cash vs check amounts collected.
2. We agreed the amount collected from the landfill receipts to proper recording in the general ledger.
3. For deposits selected, we reviewed invoices that were created and agreed to proper recording in the general ledger.
4. From each deposit summary, we selected 1 series of landfill receipts and ensured that each receipt in the sequence was accounted for.

RESULTS

Based on our testing, the internal controls over cash receipts from landfill are adequate. We noted that no cash is being collected for the landfill department.

2015-24 RECOMMENDATION:

We recommend that the invoices being prepared for charges have invoice numbers on them.

STATUS OF RECOMMENDATIONS FROM PREVIOUS REPORTS:

No previous comments to be addressed.

**Building
Department**

BUILDING DEPARTMENT

OBJECTIVE

To review the accountability of the sequence of the permits issued to ensure all cash receipts are properly recorded.

BACKGROUND

The Building Department collects fees for various types of permits. A customized register program is used to process the permits.

SCOPE

We selected all building permits issued for the period 1/1/14 through 12/31/14.

PROCEDURES

1. We created a list starting with 14-001 and going through the largest number noted.
2. We agreed each permit to a code (building, commercial, single family) to ensure a complete continuous list.
3. For permits not found on list (2), traced to supporting documentation that permit was voided.
4. We selected 5 months and traced to a receipt voucher for each month. The total was traced to the deposit in the bank and the general ledger.

RESULTS

Based on our testing, the internal controls over cash receipts from building are adequate. All permits are being accounted for.

STATUS OF RECOMMENDATIONS FROM PREVIOUS REPORTS:

No previous comments to be addressed.

Bank Reconciliations

BANK RECONCILIATIONS

OBJECTIVE

To review current policies and procedures for preparing bank reconciliations.

BACKGROUND

Bank reconciliations are a critical internal control that should be performed and monitored on a monthly basis.

SCOPE

We reviewed 2 months from each bank account where bank reconciliations are prepared for any unusual items and documentation of proper review and approval.

PROCEDURES

1. We obtained a list of 29 accounts for the Town.
2. We selected 2 months for the general fund account, payroll account, town clerk account, park and recreation account, capital project reserve account, and small cities project expenditure account.
3. We reviewed bank reconciliations to ensure they were reconciled and approved timely.

RESULTS

Based on our testing, bank reconciliations appear to be prepared and approved timely, but there is no formal documentation of the date of approval.

2015-25 RECOMMENDATION:

We recommend that supervisor approval and the date of approval be formally documented monthly on all bank reconciliations.

Fraud Policy

FRAUD POLICY

OBJECTIVE

To implement a policy that specifically addresses fraud and formally communicate to employees and the public the Town's definitions of fraud and to clearly communicate the consequences for committing fraud.

BACKGROUND

Best practices are for organizations to implement a fraud policy in addition to any personnel policies, code of conduct and conflict of interest policies.

Town of Southbury Fraud Policies and Procedures

PURPOSE AND SCOPE:

This Fraud Policy was created:

To establish policy and procedures for clarifying acts that are considered to be fraudulent, describing the steps to be taken when fraud or other related dishonest activities are suspected, and providing procedures to follow in accounting for missing funds, restitution and recoveries;

To strengthen the public's confidence in the integrity of municipal government employees by establishing a formal process for reporting investigating, and resolving cases of fraud and abuse;

To raise the awareness of municipal officials/employees to integrity-related issues by initiating integrity-related programs and policies throughout Town Departments; and

To provide guidance and assistance to Town Department heads concerning recommendations for specific integrity related issues that emphasize prevention, detection and correction of fraud, corruption, and abuse within their organizations.

Definition of Terms:

Fraud is understood to mean a dishonest and deliberate course of action which results in the obtaining of money, property or an advantage to which the recipient would not normally be entitled. This would include:

- Theft, misuse, or diversion of money, equipment and/or materials;
- Worker's compensation fraud;
- Intentional failure to report damage;
- Intentional failure to provide product or services that are a part of your job;
- Intentional misrepresentation of Town's or governmental policies;
- Payroll falsification (theft of time)

Abuse entails the exploitation of "loopholes" to the limits of the law, primarily for personal advantage. For example, an employee abuses a system of travel allowances by intentionally and unnecessarily scheduling meetings in another Town on a Friday afternoon and on the following Monday morning in order to claim per diem over a weekend.

I. GENERAL

A. The Town of Southbury is committed to protecting its assets against the risk of loss or misuse. Accordingly, it is the policy of the Town of Southbury to identify and promptly investigate any possibility of fraudulent or related dishonest activities against the Town and, when appropriate, to pursue legal remedies available under the law.

B. DEFINITIONS

1. Fraud - Fraud includes, but is not limited to:
 - a. Claim for reimbursement of expenses that are not job-related or authorized by the current bargaining agreement.
 - b. Forgery or unauthorized alteration of documents (checks, promissory notes, time sheets, independent contractor agreements, purchase orders, budgets, etc.).
 - c. Misappropriation of Town assets (funds, securities, supplies; furniture, equipment, etc.).
 - d. Improprieties in the handling or reporting of money transactions.
 - e. Authorizing or receiving payment for goods not received or services not performed.
 - f. Computer-related activity involving unauthorized alteration, destruction, forgery, or manipulation of data or misappropriation of Town-owned software.
 - g. Misrepresentation of information on documents.
 - h. Any apparent violation of Federal, State, or Local laws related to dishonest activities or fraud.
 2. Employee - In this context, employee refers to any individual or group of individuals who receive compensation, either full- or part-time, from the Town of Southbury. The term also includes any volunteer who provides services to the Town through an arrangement with the Town or a Town organization.
 3. Management - In this context, management refers to any administrator, manager, director, supervisor, or other individual who manages or supervises funds or other resources.
 4. Southbury Police Department and First Selectman - In this context, Southbury Police Department and First Selectman refers to the persons who shall investigate credible claims of fraud.
 5. External Auditor - In this context, External Auditor refers to independent audit professionals who perform annual audits of the Town's financial statements.
- C. It is the Town's intent to fully investigate any suspected acts of fraud, misappropriation, or other similar irregularity. An objective and impartial investigation will be conducted regardless of the position, title, and length of service or relationship with the Town of any party who might be or become involved in or becomes the subject of such investigation.

- D. Each department of the Town is responsible for instituting and maintaining a system of internal control to provide reasonable assurance for the prevention and detection of fraud, misappropriations, and other irregularities. Management should be familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indications of such conduct.
 - E. The First Selectman, in conjunction with the Town Attorney, the Southbury Police Department and, if needed, the Controller/Treasurer, have the primary responsibility for the investigation of all activity as defined in this policy.
 - F. Throughout the investigation, the First Selectman will inform the Controller/Treasurer and Board of Finance of pertinent investigative findings.
 - G. Employees will be granted whistle-blower protection when acting in accordance with this policy. When informed of a suspected impropriety, neither the Town nor any person acting on behalf of the Town shall:
 - 1. Dismiss or threaten to dismiss the employee,
 - 2. Discipline, suspend, or threaten to discipline or suspend the employee,
 - 3. Impose any penalty upon the employee, or
 - 4. Intimidate or coerce the employee.
- Violations of the whistle-blower protection will result in discipline up to and including dismissal.
- H. Upon conclusion of the investigation, the results will be reported to the First Selectman, the Board of Selectmen and Board of Finance
 - I. The First Selectman, following review of investigation results, shall take appropriate action regarding employee misconduct. Disciplinary action can include termination, and referral of the case to the State's Attorney for possible prosecution.
 - J. The Town will pursue every reasonable effort, including court ordered restitution, to obtain recovery of Town losses from the offender, or other appropriate sources.

II. PROCEDURES

A. First Selectman Responsibilities

- 1. If the First Selectman has reason to suspect that a fraud has occurred, he or she shall immediately contact the Town Attorney, Southbury Police Department, and/or the Controller/Treasurer.
- 2. The alleged fraud or audit investigation shall not be discussed with the media by any person other than the First Selectman, Resident State Trooper or his designee, or the Town Attorney.

B. Management Responsibilities

1. Management is responsible for being alert to, and reporting fraudulent or related dishonest activities in their areas of responsibility.
2. Each manager should be familiar with the types of improprieties that might occur in his or her area and be alert for any indication that improper activity, misappropriation, or dishonest activity is or was in existence in his or her area.
3. When an improper activity is detected or suspected, management should determine whether an error or mistake has occurred or if there may be dishonest or fraudulent activity.
4. If management determines a suspected activity may involve fraud or related dishonest activity, they should contact their immediate supervisor (or contact the Town Attorney or First Selectman if the supervisor is involved).
5. Department Heads should inform the First Selectman immediately upon learning of a credible allegation of fraud (or contact the Town Attorney or Southbury Police Department if the First Selectman is implicated).
6. Management should not attempt to conduct individual investigations, interviews, or interrogations. However, management is responsible for taking appropriate corrective actions to ensure adequate controls exist to prevent reoccurrence of improper actions.
7. Management should support the Town's responsibilities and cooperate fully with the First Selectman, other involved departments, and law enforcement agencies in the detection, reporting, and investigation of criminal acts, including the prosecution of offenders.
8. Management must give full and unrestricted access to all necessary records and personnel. All Town furniture and contents, including desks and computers, are open to inspection at any time. There is no assumption of privacy.
9. In dealing with suspected dishonest or fraudulent activities, great care must be taken.

Therefore, management should not:

- a. Make unfounded accusations.
 - b. Alert suspected individuals that an investigation is underway.
 - c. Treat employees unfairly.
 - d. Make statements that could lead to claims of false accusations or other offenses.
10. In handling dishonest or fraudulent activities, management has the responsibility to:
- a. Make no contact (unless requested) with the suspected individual to determine facts or demand restitution. Under no circumstances should there be any reference to "what you did", "the crime", "the fraud", "the misappropriation", etc.
 - b. Avoid discussing the case, facts, suspicions, or allegations with anyone outside the Town, unless specifically directed to do so by the Town Attorney.

10.

- c. Avoid discussing the case with anyone inside the Town other than employees who have a need to know such as the First Selectman, Town Controller/Treasurer or Town Attorney or law enforcement personnel.
- d. Direct all inquiries from the suspected individual, or his or her representative, to the Town Attorney. All inquiries by an attorney of the suspected individual should be directed to the Town Attorney. The alleged fraud or audit investigation shall not be discussed with the media by any person other than the First Selectman, Police Chief or his designee, and the Town Attorney.
- e. Take appropriate corrective and disciplinary action, up to and including dismissal, after consulting with the First Selectman and the Town Attorney, in conformance with the Town's Personnel Policies and Procedures or the appropriate bargaining document.

C. Employee Responsibilities

- 1. A suspected fraudulent incident or practice observed by, or made known to, an employee must be reported to the employee's supervisor for reporting to the proper management official.
- 2. When the employee believes the supervisor may be involved in the inappropriate activity, the employee shall make the report directly to the next higher level of management or contact the Town Attorney or the Controller/Treasurer.
- 3. The reporting employees shall refrain from further investigation of the incident, confrontation with the alleged violator, or further discussion of the incident with anyone, unless requested by the First Selectman or law enforcement personnel.

III. EXCEPTIONS

There are no exceptions to this policy unless provided and approved by the First Selectman and the Town Attorney.

Effective July 1, 2015

First Selectman

IT Policies and System Rights

IT POLICIES AND SYSTEM PERMISSIONS

OBJECTIVE

To review certain financial software system permissions for the Fiscal Office employees to determine whether employee had rights that are not necessary to complete their job responsibilities.

We will also review the Town's current IT policies and provide our recommendations for additional policies the Town should consider implementing.

BACKGROUND

Access permissions to certain functions may create a lack of segregation of duties or other internal control weaknesses. Restricting rights to only the actions that are required to complete their job responsibilities is a best practice.

Strong IT related policies are critical to clearly communicate to employee and third parties the proper use of Town resources and the protection and security of Town resources.

PROCEDURES

1. We reviewed the financial system (MUNIS) permissions for the following roles:

- | | | |
|----|---------------------------|-------------------------------|
| a. | Administrator Role | Approximately 190 permissions |
| b. | Accounting Role | Approximately 190 permissions |
| c. | New Accounts Payable Role | Approximately 65 permissions |

Due to the volume of the number of permissions our review was limited to the permissions related to vendor maintenance. Other observations were noted if they came to our attention.

2. We reviewed the Town's current IT policies and identified any additional policies that the Town should consider implementing. The Town currently has the following IT related policies:

- a. Public Internet and Computer Use Policy
- b. Policy related to use (personal and official) of Social Media
- c. Employee Internet and E-mail Use Policy

IT POLICIES AND SYSTEM PERMISSIONS

RESULTS

Based upon our review the financial system (MUNIS) permissions we noted the following:

- The administrator's permission are held by the Treasurer, Assistance Treasurer and the IT Director
- The accounting role and new accounts payable role are held by the 3 other employees in the department. Each employee has the same permissions for both roles.
- It was noted that no roles had the ability to authorize a new vendor "on the fly"
- It was noted the administrator's role and accounting role were able to maintain vendors. The new accounts payable function role was only able to update existing vendors including name, but not address.
- It appears that the accounting role has certain permission to override items related to accounts payable, purchase orders and requisitions.
- The Town would benefit from the implementation of additional IT related policies.

2015-26 RECOMMENDATION:

- A. Currently, the same employees are assigned to the accounting role and the new accounts payable function role. We recommend that the accounts payable clerk be removed from the accounting role and the other 2 employee be removed from the new account payable role.
- B. We recommend that all permissions related to vendor maintenance be removed from the new accounts payable role and the accounting role.
- C. We recommend that the need for override permissions for the accounting role be reviewed and removed. Override permission would generally be restricted to management level employees.
- D. We recommend that each employee's job responsibilities be reviewed in detail against each permission for each role to determine if that function is part of their job responsibility. If it is determined that it is not part of an employee's responsibility, then the permission should be removed.

This may include creating new roles for certain employees to ensure they only have permissions to the minimum amount of functions necessary to fulfill their job responsibilities.

IT POLICIES AND SYSTEM PERMISSIONS

2015-26 RECOMMENDATION:

E. We recommend that the Town considered developing and implementing the following IT related policies:

1. Password Policy

A password policy includes advice on proper password management such as:

- never share a computer account
- never use the same password for more than one account
- never tell a password to anyone, including people who claim to be from customer service or security
- never write down a password
- never communicate a password by telephone, e-mail or instant messaging
 - being careful to log off before leaving a computer unattended
- changing passwords whenever there is suspicion they may have been compromised
- operating system password and application passwords are different
- password should be alpha-numeric

2. Acceptable Computer Use Policy

An **Acceptable Use Policy (AUP)**, that restricts the ways in which the network, website or system may be used and sets guide lines as to how it should be used. Acceptable use policies are an integral part of the framework of information security policies. An AUP should address what users are, and are not, allowed to do with the IT systems of an organization. It should refer users to the more comprehensive security policy where relevant. In some cases, AUP documents are named *Internet and E-mail Policy*. These documents, even though named differently, largely provide policy statements as to what behavior is acceptable from users of the local network/Internet connected via the local network.

3. Mobile Device Policy

The purpose of this policy is to define standards, procedures, and restrictions for end users who have legitimate business requirements to use a private or Town provided mobile device that can access the Town's electronic resources. This mobile device policy should apply to, but not limited to, all devices and accompanying media that fit the following device classifications as Laptop/notebook, Tablet computers such as iPads, Mobile/cellular phones, Smartphones, PDAs, any mobile device capable of storing Town data and connecting to an unmanaged network.

IT POLICIES AND SYSTEM PERMISSIONS

4. Vendor access to Town network policy

The purpose of this type of policy is to define standards for connecting to the Town's network from any remote host, untrusted host, and remote network. These standards are designed to minimize the potential exposure to the Town from damages, which may result from unauthorized use of the Town's resources. Damages include the loss of sensitive or Town confidential data, intellectual property, damage to public image, damage to critical Town's internal systems, etc.

5. IT Asset Management Policy

IT asset management (information technology asset management) is a set of business practices for optimizing spending and supporting strategic decision making within the IT environment.

The IT asset management process typically involves gathering a detailed inventory of an organization's hardware and software and then using that information to make informed decisions about IT-related purchases and redistribution.

6. Computer Malware Policy

This type of policy address the Towns policy regarding the required use of antivirus software on all devices that connect to the network. It should address items such as:

- The required use of antivirus software
- The antivirus software must be configured to automatically clean and remove an infected file or to quarantine the infected file
- The antivirus software must be configured to automatically update itself on a regular basis.
- Scans for viruses on the device must occur without user intervention on a regular basis.
- All Town computers must use the antivirus software installed and configured by IT Services. Users are prohibited from disabling or tampering with the installed antivirus software unless authorized by IT Services.
- When a computer system is determined to be infected with a virus or other malicious software that system may be blocked and removed from the Town's network until IT has verified that the system is virus-free.
- All e-mail inbound to the Town will be scanned for viruses, malware and spam. E-mail that poses a risk to the Town is blocked. No security software is 100% effective, however, so users must exercise appropriate caution when opening e-mails or attachments.

- External Web sites that are known sources of computer viruses and malware are blocked. No security software is 100% effective, however, so users should exercise appropriate caution when accessing external Web sites.
- All employees must take responsibility to ensure the risks of their desktop system of infecting other systems or shared files on a server are minimized. Despite the best measures, however, systems can still be at risk due to the rapid proliferation of malicious code via e-mail, shared files and other methods.
- Never open any files or macros attached to an e-mail from an unknown, suspicious or untrustworthy source or if you receive an attachment from someone you know unexpectedly. Delete these attachments immediately.
- Delete Spam, chain, and other junk e-mail **without** forwarding it.
- Never download files from unknown or suspicious sources

7. Remote Access Policy

This policy is a document which outlines and defines acceptable methods of remotely connecting to the internal network. The remote access policy should define standards for connecting to the Town's network and security standards for computers that are allowed to connect to the organizational network.

8. Disaster Recovery/Business Continuity Plan Policy and Procedures

The Town should have a plan in place (usually referred to as a "Disaster Recovery Plan", or "Business Continuity Plan") that outlines how a recovery will be accomplished. Key components of a disaster recovery plan are as follows:

- a. An accurate communication or call list.
- b. Defined roles for each assigned member of the team.
- c. A list of 24-hour supply delivery resources and restaurants at the recovery site
- d. Software application list
- e. A current network diagram of the entire network and recovery site
- f. Directions of how to reach the recovery site.
- g. A list of vendor contacts and insurance documentation (policy numbers).



Town of Mansfield Department of Finance

To: Finance Committee, Town of Mansfield
From: Cherie Trahan, Director of Finance
CC: Matthew Hart, Town Manager
Date: October 7, 2015
Re: Audit Services FY 15/16

We are currently in the fourth year of a three year contract with the option to extend for two years for audit services with BlumShapiro. We have one more year that we can extend the contract to provide the audit services for FY 15/16. Attached is the contract fee schedule.

In 2009, we went out to bid for audit services after having Kostin, Ruffkess & Co provide our audit services for approximately ten years. During this time, we had several different teams and managers on the account. Three firms submitted proposals, and BlumShapiro was selected at the preferred audit firm by the selection committee. In 2012 we went back out to bid and reappointed BlumShapiro with Vanessa Rossitto as the Managing Partner. Ms. Rossitto and her team have done an excellent job on the financial audit and I would recommend that we continue with their services for another year under the current contract. This contract was very competitive compared to the other firm that provided a proposal.

Attached for your information is GFOA's guidance on audit procurement. They recommend multiyear agreements of at least five years in duration. This helps to reduce audit costs by allowing auditors to recover certain "startup" costs over several years.

The GFOA further recommends a full-scale competitive process be undertaken at the end of each contract. However, they also recognize that the competition among audit firms fully qualified to perform public-sector audits is limited, making mandatory auditor rotation counterproductive. It is recommended that all qualified firms including the current auditors, assuming past performance has been satisfactory, be considered in the process.

If the Committee is in agreement, we will plan to extend our current contract with BlumShapiro for audit services for FY 15/16 and will issue an RFP next year for audit services for FY 16/17. Pending your agreement, we will prepare the necessary motions for the Town Council's approval at an upcoming meeting.

Attachment A

AUDIT WORK COST PROPOSAL FORM

Service	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
Town CAFR and Related Reports	\$ 39,000	\$ 40,000	\$ 41,000	\$ 42,000	\$ 43,000
R-19 CAFR and Related Reports	\$ 22,000	\$ 22,500	\$ 23,000	\$ 23,500	\$ 24,000
EHHD Audit and Related Reports	\$ 6,000	\$ 6,200	\$ 6,400	\$ 6,600	\$ 6,800
ED-001 Mansfield	\$ 4,000	\$ 4,100	\$ 4,200	\$ 4,300	\$ 4,400
ED-001 Region-19	\$ <u>3,000</u>	\$ <u>3,100</u>	\$ <u>3,200</u>	\$ <u>3,300</u>	\$ <u>3,400</u>
Total for Fiscal Year (not-to-exceed)	\$ <u>74,000</u>	\$ <u>75,900</u>	\$ <u>77,800</u>	\$ <u>79,700</u>	\$ <u>81,600</u>

The fees stated above are quoted on a *not-to-exceed* basis, and you will not be billed for charges incurred in excess of our quote without first discussing the cause with you, exploring alternative approaches and receiving your approval. Should any unanticipated problems arise, we will let you know immediately and discuss with you the best course of action. Any out-of-pocket expenses incurred in the course of performing our work, such as travel, are included.



GFOA Best Practice

Audit Procurement

Background. The Government Finance Officers Association (GFOA) has long recommended that state and local governmental entities obtain independent audits of their financial statements performed in accordance with the appropriate professional auditing standards. Properly performed audits play a vital role in the public sector by helping to preserve the integrity of the public finance functions and by maintaining citizens' confidence in their elected leaders.

Recommendation. GFOA makes the following recommendations regarding the selection of auditing services:

- The scope of the independent audit should encompass not only the fair presentation of the basic financial statements, but also the fair presentation of the financial statements of individual funds and component units. The cost of extending full audit coverage to the financial statements of individual funds and component units can be justified by the additional degree of assurance provided. Nevertheless, the selection of the appropriate scope of the independent audit ultimately remains a matter of professional judgment. Accordingly, those responsible for securing independent audits should make their decision concerning the appropriate scope of the audit engagement based upon their particular government's specific needs and circumstances, consistent with applicable legal requirements.
- Governmental entities should require in their audit contracts that the auditors of their financial statements conform to the independence standard promulgated in the General Accounting Office's *Government Auditing Standards* even for audit engagements that are not otherwise subject to generally accepted government auditing standards.
- Governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Such multiyear agreements can take a variety of different forms (e.g., a series of single-year contracts), consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain "startup" costs over several years, rather than over a single year.
- Governmental entities should undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract, consistent with applicable legal requirements. Ideally, auditor independence would be enhanced by a policy requiring that the independent auditor be replaced at the end of the audit contract, as is often the case in the private sector. Unfortunately, the frequent lack of

competition among audit firms fully qualified to perform public-sector audits could make a policy of mandatory auditor rotation counterproductive. In such cases, it is recommended that a governmental entity actively seek the participation of all qualified firms, including the current auditors, assuming that the past performance of the current auditors has proven satisfactory. Except in cases where a multiyear agreement has taken the form of a series of single-year contracts, a contractual provision for the automatic renewal of the audit contract (e.g., an automatic second term for the auditor upon satisfactory performance) is inconsistent with this recommendation.

- Professional standards allow independent auditors to perform certain types of nonaudit services for their audit clients. Any significant nonaudit services should always be approved in advance by a governmental entity's audit committee. Furthermore, governmental entities should routinely explore the possibility of alternative service providers before making a decision to engage their independent auditors to perform significant nonaudit services.
- The audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit. In no case should price be allowed to serve as the sole criterion for the selection of an independent auditor.

References.

CPA Audit Quality: A Framework for Procuring Audit Services, General Accounting Office, August 1987.

Audit Management Handbook, Stephen J. Gauthier, GFOA, 1989.

An Elected Official's Guide to Auditing, Stephen J. Gauthier, GFOA, 1992.

Governmental Accounting, Auditing and Financial Reporting (GAAFR), Stephen J. Gauthier, GFOA.

Model Audit RFP Diskette, GFOA.

Approved by the GFOA's Executive Board, October, 2002.

BlumShapiro

Accounting | Tax | Business Consulting

MEMO - COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To: Finance Committee, Town of Mansfield, Connecticut

From: Vanessa E. Rossitto, CPA, Audit Partner
Blum Shapiro & Company, P.C.

Date: August 25, 2015

Re: Auditing Standard No 114, The Auditor's Communication with
Those Charged with Governance

The American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standard (SAS) No. 114 entitled "The Auditor's Communication with Those Charged with Governance." This statement defines who is charged with governance as well as the information that should be communicated to them. For purposes of our audits we have concluded that the members of the Finance Committee are charged with the governance of the Town.

This standard stresses the importance of two-way communication and requires certain communications to be discussed prior to the audit. Summarized below is the information that we are required to communicate to those charged with governance.

Objective

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The objective also includes reporting on:

- Internal control related to the financial statements and compliance with laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with Single Audit Act Amendments of 1996; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the Connecticut State Single Audit Act.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996 and the provisions of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and the Connecticut State Single Audit Act and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133 and the Connecticut State Single Audit Act and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report.

In connection with our audit of the Town's financial statements, we will also communicate any recommendations to improve the Town's internal controls.

Our Responsibility

Our responsibility under the aforementioned standards is to express opinions on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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 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. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that we discover. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.

Audit Scope and Materiality

The scope of our audit of the financial statements is designed to provide reasonable assurance that the Town's financial statements are free of material misstatements, whether caused by errors or fraud. Our consideration of materiality is a matter of professional judgment and is influenced by our perception of the needs of users of financial statements.

Audit Approach

The nature, timing and extent of our contemplated procedures for significant accounts are based on a risk assessment of the likelihood of material misstatements occurring in those accounts. We contemplate an audit strategy based on reliable effective controls. We plan to execute audit procedures to substantiate account balances primarily as of or near year-end.

In conducting our audit, we maintain an awareness of the possibility that errors, fraud or illegal acts (as defined in authoritative professional literature) may have occurred that could have a material and direct effect on the financial statements. Effective internal controls are designed to prevent or detect errors, fraud or illegal acts; however, it is possible that they may nevertheless occur.

We will report to those charged with governance and management any such situations which come to our attention even though they might not be material in relation to the financial statements taken as a whole.

Independence

There are no relationships between any of our representatives and the Town that in our professional judgment impair our independence.

Other Services

In addition to the audits of the above entities, we are also performing the following services and/or issue the following reports:

- Board of Education Form ED001 Agreed Upon Procedures
- Testing of Internal Controls

Responsibilities under Auditing Standards Generally Accepted in the United States of America

Management's responsibilities include:

- Management is responsible for the financial statements and all accompanying information, as well as representations contained therein.
- Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards and for the preparation of the schedule of expenditures of state assistance.
- Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance.
- Management is also responsible for the selection and application of accounting principles
- Management is responsible for the design and implementation of programs and controls to prevent and detect fraud and for informing us about all known or suspected fraud or illegal acts affecting the government.

Auditor's responsibilities include:

- Understanding the internal control structure to evaluate risk
- Performing tests, analysis and reviews of financial statements and underlying support
- Planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement; whether caused by error or fraud
- Evaluating fairness of presentation of financial statements in conformity with the Accounting Principles Generally Accepted in the United States of America (GAAP) in all material respects

Audit Areas of Focus and Risks

- Cash – existence, overstatement
- Investments – existence, valuation
- Receivables and revenues - existence
- Capital Assets – existence, valuation
- Payables, accruals, budget and expenditures – understatement, cutoff
- Payroll expenditures – cutoff
- Debt- completeness
- Insurance and Self Insurance – existence, rights/obligations
- Grants – Federal and State Single Audit - compliance

Engagement Timing

- Our initial planning for the year-end audit will be performed during July 2015. Our focus will be on documentation of the internal controls as required by auditing standards, fraud inquiry interviews with management and key personnel, preparation of certain confirmations some overall analytical procedures and audit fieldwork as applicable to the federal and state single audits and procedures performed relevant to the tax collector's and tax assessor's offices.
- Audit Timing:

Commencement of Fieldwork	10/5/15
End of Fieldwork	10/23/15
Issuance of Draft Financial Statements	11/27/15
Client Approval of Draft Statements	12/4/15
Issuance of Financial Statements	12/11/15
Issuance of Management Letter, if applicable	12/11/15
Post Audit Meeting with Management	TBD

Engagement Team

An engagement team consisting of the following individuals will be responsible for audit, and other services, including contact information to reach us:

- Vanessa Rossitto, Audit Partner
Direct Line: 860-561-6824
Email: vrossitto@blumshapiro.com
- Joe Kask, Concurring Audit Partner
Direct Line: 860-570-6372
Email: jkask@blumshapiro.com
- Michael Popham, Audit Manager
Direct Line: 860-570-6391
Email: mpopham@blumshapiro.com

Other Communications

At the completion of our audit we will communicate in writing the following information related to our audit:

- Management judgments and significant sensitive accounting estimates
- Significant accounting policies
- The adoption of new accounting principles or changes in accounting principles
- Significant audit adjustments (recorded and unrecorded)
- Disagreements with management about auditing, accounting or disclosure matters
- Difficulties encountered in performing the audit
- Irregularities and illegal acts
- Consultation by management with other auditors
- Matters affecting independence of auditors
- Material weaknesses, significant deficiencies and control deficiencies

Knowledge of Fraud

- If management or those charged with governance has any knowledge of fraud or potential fraud, this information needs to be communicated to us. As part of the audit process, we will be meeting with management to discuss fraud risks and any further issues.
- 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.

- The Forensic Accounting group of BlumShapiro provides Fraud Risk Assessment services. 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. If you are interested a Fraud Risk Assessment or would like additional information, we would be happy to discuss the details of this service with you.

Industry Developments – Current Year Accounting Standards

- **GASB Statement No. 68 Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.** The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. At the beginning of the period in which the provisions of Statement 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized.

The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

- **Statement No. 69 Government Combinations and Disposals of Government Operations.** This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combination* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

Government mergers include combinations of legally separate entities without the exchange of significant consideration. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis. Earlier application is encouraged.

Industry Developments – Future Accounting Standards

- **GASB Statement No. 72 Fair Value Measurement and Application.** This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

Industry Developments – Federal Single Audit

- **Uniform Grant Guidance** – The U.S. Office of Management and Budget (OMB) has recently issued *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Grant Guidance or Guidance). This Guidance will supersede what we know today as Circular A-133. The new Guidance is an effort to streamline the existing guidance on administrative requirements, cost principles and audit requirements for federal awards. This guidance provides a government-wide framework for grants management which will be complemented by additional efforts to strengthen program outcomes through innovative and effective use of grant-making models, performance metrics, and evaluation. This reform of OMB guidance will reduce administrative burden on non-Federal entities receiving Federal awards.

The Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow up.

Some of the more significant changes for award recipients relate to time and effort reporting and indirect costs.

As the effective date of the Circular is **December 26, 2014**, compliance with the new requirements will start on this date. Award recipients will have to ensure that their internal control system over their grants is in compliance with the new requirements by this date. This also presents a challenge in that many grants will be subject to both the old cost principles and the new Guidance. Suffice it to say that the education process will need to start immediately. Award recipients should read the Guidance and its new requirements now to ensure full compliance.

Areas of Concerns

- If you have any concerns that you would like to discuss with Blum Shapiro, we will make ourselves available either by phone or in person to discuss such concerns.

