

Town of New Canaan, Connecticut

Independent Auditors' Report on Communication of  
Internal Control Related Matters Identified in the Audit

June 30, 2013

**Independent Auditors' Report on Communication of  
Internal Control Related Matters Identified in the Audit**

Town Council,  
Town of New Canaan, Connecticut

In planning and performing our audit of the governmental activities, the business-type activities, the discretely presented component unit, trust funds, each major fund, and the aggregate remaining fund information of the Town of New Canaan, Connecticut ("Town") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose of conducting the Town's audit and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies, deficiencies that we consider to be control deficiencies and other observations and recommendations for strengthening internal control and/or operating efficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

The exhibits set forth below and appended to this letter, include our required communications and various matters involving internal control that we identified during our audit.

- Addendum A - Deficiency in internal control that we consider to be a material weakness and significant noncompliance
- Addendum B - Other observations and recommendations for strengthening internal control and/or operating efficiency

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

Wethersfield, Connecticut  
March 13, 2014

# Town of New Canaan, Connecticut

## Addendum A

### Material Weakness and Significant Noncompliance (Continued)

#### Summary of the Finding:

##### **MW-2012-01 – Timely and Accurate Financial Reporting (Repeat Finding)**

**Criteria** – Financial reporting should be timely and accurate.

**Condition** – The Town did not have timely and accurate financial reporting for the fiscal year.

**Effect** – Management did not have adequate financial reporting to make decisions and comply with budgeting rules and regulations in the Town's charter. The financial reports that were being produced were materially misstated.

**Cause** – Senior staff's skill sets and responsibilities are not appropriately aligned resulting in delayed and inaccurate posting of activity required to close the books.

**Recommendation** – The Town has written financial reporting procedures and a monthly closing procedure check list. However, staff needs to be held accountable to meet the deadlines required to close the books timely and accurately.

**Views of Responsible Officials and Planned Corrective Actions** – Financial management has balanced the records for the year ended June 30, 2013. This was done more thoroughly and more accurately than for the year ended June 30, 2012. Continued changes and improvement are being made for the fiscal year ending June 30, 2014 to assure that these issues will continue to improve.

#### Specific Situations Leading to the Material Weakness:

##### Current Monthly Closing Process Inadequate

The Town does have a system set up for a monthly close of the accounting records, however implementation of the check list and procedures is hampered by the skill set of the senior staff. With proper skilled accountants the current system would ensure each balance sheet account is reviewed and reconciled to supporting documentation. Significant issues that would have been caught and corrected on a timely manner would have included:

- Postings to incorrect accounts, double postings, and any missed posting would have been caught and corrected and would have prevented the additional audit entries needed to correct accounts after the Trial Balances were given to the auditors
- Balancing with the Board of Education – The Board of Education keeps a subsidiary ledger of expenditures against their budget. The Town was not able to balance with the Board of Education's subsidiary ledger in a timely manner. (2013).
- Interfund Balances – Interfund balances did not balance. This was not noted and corrected on a timely basis. (2012 and 2013).

# Town of New Canaan, Connecticut

## Addendum A

### Material Weakness and Significant Noncompliance (Continued)

#### Specific Situations Leading to the Material Weakness (Continued):

**Recommendation:** The monthly close procedures and check list need to be enforced and staff held more accountable for their work. Skill sets of senior staff should be reviewed and evaluated for appropriateness.

#### Bank Accounts

Bank accounts are now being reconciled monthly. However, reconciling items are not being booked into the system timely. The General Fund bank account was not completely reconciled until 8 months after the end of the year. This was due to the previous bank account never being reconciled prior to 2012 and due to the establishment of a new bank with new bank accounts halfway through the year. (2013)

Bank deposits for credit card revenues were posted to the incorrect bank account. This was not noted by Town Financial Personnel until pointed out by the auditors. (2013)

**Recommendation:** All bank accounts should be reconciled and ledger activity posted in a timely manner, generally within 30 days of receipt.

#### Accounts Receivables (non-tax)

There are a number of subsidiary ledgers and systems used to record and track receivables. For many years receivables were not being reconciled to subsidiary ledgers and systems on a regular and timely basis. (2012 and 2013) In addition, some receivables on the trial balance had negative balances and were not corrected by the client. (2013)

Beginning March 2014, the Town is implementing a receivable module for their software to keep track of the balances owed by specific individuals and phasing out the use of subsidiary ledgers and systems. For 2013 there was not an adequate matching of payments to charges to track who continued to owe the Town.

The Board of Education prepares a listing of accounts receivable at year end. In order for the books to balance, these must be recorded on the Town's general ledger. These totals were turned over to the Town and the Town did not record payments on the June 30, 2012 Board of Education receivables appropriately and did not record the new receivables for June 30, 2013.

**Recommendation:** Receivables should be reconciled on a monthly basis. Monthly statements should be sent, not only expedite the collection of the receivables, but also as a function of internal control. This is included in the month end closing checklist but should include noting the following was done and the initials of who did it:

- Reconciled the total on the trial balance to the total listing of receivables
- A statement was sent to each of the debtors on the detailed listing
- Documentation of the detailed listing is filed in the finance department

# Town of New Canaan, Connecticut

## Addendum A

### Material Weakness and Significant Noncompliance (Continued)

#### Specific Situations Leading to the Material Weakness (Continued):

##### Accounts Payable

The Board of Education prepares a listing of accounts payable at year end. In order for the books to balance, the total of these were communicated to the Town for recording on the Town's general ledger. The Town did not record the accurate final balances for Board of Education's accounts payable at year end (2013).

**Recommendation:** This should be reviewed as part of the month end closing for accuracy and completeness and balanced to the general ledger.

##### Encumbrances

Encumbrances are firm commitments to purchase goods or services that have not been received at year end. Accounts payable are goods or services received at year end that have not been paid at year end. Accounts payable are expenditures for the budget basis and for generally accepted accounting principles. Encumbrances are only expenditures for the budget basis.

We noted at the Board of Education that the listings for Encumbrances and Accounts payable were not always accurate. There were a mix of Encumbrances and Accounts Payable on each listing (2013).

In addition, the Town did not record an encumbrance in the general ledger (2013). Also, we noted that the Board of Education recorded several prepaid expenditures in an activity fund. These were encumbrances, but not prepaid expenditures (2013).

Lastly, encumbrances are a firm commitment as of June 30<sup>th</sup> to purchase goods or services. We noted some encumbrances that were recorded as firm commitments as of June 30<sup>th</sup>, but the purchase order was approved after June 30<sup>th</sup> (2013).

**Recommendation:** A subsidiary listing of encumbrances should be maintained. This should be reviewed as part of the month end closing for accuracy and completeness and balanced to the general ledger. All other balance sheet accounts should be reviewed and reconciled to supporting documentation.

# Town of New Canaan, Connecticut

## Addendum B

### Observations/Recommendations: Internal Control and/or Operating Efficiency

#### Discussion of Significant Cycles

##### Tax Collections

Tax Collections represents a significant cycle of transactions. Because of the nature of the activity and the lack of rules and regulations regarding internal controls in the State Statutes, there is large risk that errors and/or irregularities could occur and not be noted in a timely manner. The Town has taken steps to address some of these risks. All internal controls that are added should be documented and all steps performed should be documented (2012 and 2013).

**Recommendation:** Because of the inherent risk with any Connecticut tax collections office, we would recommend that the internal controls over this system be specifically reviewed and monitored. We would recommend that this include at least:

- Periodic reconciliations of the Grand Rate Book Balance Report (GRBBR) to outside documentation including reconciling:
  - The current year's beginning balances to the prior year's ending balances.
  - The current year's levy to the Assessor's Grand List.
  - The lawful corrections to the Assessor's adjustment reports.
  - The total taxes collected to the revenue posted by the finance department.
  
- Segregation of duties within the tax collection office so that, whenever possible, the following three areas are kept separate:
  - Authorization of transactions
  - Recordkeeping of transactions
  - Custody of assets

Where a segregation of duties is not possible, other internal control measures should be implemented.

##### General Government – Non-Payroll Transactions

**Budget vs. Actual Reporting** - The Town's books should be balanced and reconciled before budget vs. actual reports are prepared for management and Town board members so that decisions can be made with timely and accurate information. Based on the volume and dollar amount of proposed journal entries from the audit, we can assume that the financial reporting used for decision making was materially misstated.

**Recommendation:** The Town's postings should be timely and accurate to ensure the monthly budget vs. actual report reflects up-to-date information and a balance sheet should be prepared, balanced, and distributed monthly.

## Town of New Canaan, Connecticut

### Addendum B

#### Observations/Recommendations: Internal Control and/or Operating Efficiency (Continued)

##### Discussion of Significant Cycles (Continued)

##### Non-Payroll Transactions

##### Encumbrances

The Board of Education allows encumbrances to be recorded against the budget in the year that the encumbrance was made. Encumbrances are firm commitments, evidenced by a signed agreement or binding purchase order, made as of June 30<sup>th</sup>. We noted items in encumbrances that, with a proper policy, might not be considered encumbrances.

**Recommendation:** We recommend that the Board of Education develop a policy for encumbrances. The lack of a specific definition in authoritative literature could lead to what might seem like budget manipulations. A policy defining what is acceptable as an encumbrance could offset that.

##### Other Items

##### Cash Collateralization

The Town may not be taking advantage of certain collateralization set aside on its behalf by the bank.

The Connecticut General Statutes section 36-330 to 36-338 state that any bank holding government money is required to set aside monies to protect those funds. This can total 10 to 20 percent of the balance of public funds.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the Federal Deposit Insurance Corporation ("FDIC") will not recognize a pledge of collateral unless the pledge satisfies the following requirements:

- The security agreement must be in writing between the Town and the bank. Having this requirement in the State Statutes is not good enough.
- It must be executed contemporaneously with the acquisition of the asset by the depository institution.
- It must be approved by the depository institution's board of directors or loan committee, and that approval must be reflected in the minutes of the board or committee.
- It must be an official record of the depository institution continuously since it was executed.

**Town of New Canaan, Connecticut**

**Addendum B**

**Observations/Recommendations: Internal Control and/or Operating Efficiency**  
**(Continued)**

**Other Items (Continued)**

Cash Collateralization (Continued)

However, Public Law 103-325 (the Riegle Community Development and Regulatory Improvement Act of 1994), which contained a clause revising the "contemporaneous" requirement, was signed by the President in September 1994. Section 317 of the Act states that an agreement to provide for collateralization of deposits of state or local governments shall not be deemed to be invalid under the "contemporaneous" clause of FIRREA solely because the agreement was not executed contemporaneously with the acquisition of the collateral or with changes in the collateral made in accordance with the agreement. As a result, the second requirement above must no longer be met in order for state and local governments to report their deposits as being collateralized (2012 and 2013).

**Recommendation:** We recommend that the Town review this and, if deemed necessary, establish collateralization agreements with the banks.