To the Board of Finance  
Town of East Haddam, Connecticut  

In planning and performing our audit of the financial statements of the Town of East Haddam, Connecticut (the Town) as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Town’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

We noted the following matters involving the internal control over financial reporting and its operation that we offer as constructive suggestions for your consideration as part of the ongoing process of modifying and improving accounting controls and administrative practices.

Current Recommendations

General Ledger Maintenance

Some account balances and records were not analyzed prior to the start of the audit due to the Finance Administrator position being vacant for most of the fiscal year. Although these accounts were reviewed during the audit process, transactions and accounts did require audit adjustments, including the following:

- Tax revenues were adjusted to reconcile to the Tax Collector’s Report.
- Prior year deferred revenue was recognized as earned in the Reserve Fund for Capital and Nonrecurring.
- Accounts payable was recognized in the Middle School project as well as the Middle School Conversion Committee funds.
- Several investment accounts on the balance sheet needed activity postings and/or market value changes.

We recommend formal written policies and procedures be established to provide guidance to the Town on monthly balancing and year-end processing. Additional training should be made available to the Finance Administrator and other key staff to ensure transactions are recorded in accordance with the standards.
Prior Year Repeated Recommendations

Reconciliation of Abstract to Rate Book

The documented annual reconciliation of the abstract to rate book should be supported by a detailed listing of changes to the grand list completed prior to the issuance of tax bills. This control is essential for the assurance that the grand list as approved by the Assessor and Board of Tax Appeals has been appropriately modified and tax bills were sent out appropriately. We recommend that the Tax Collector and Assessor work together with the Finance department to develop policies and procedures to ensure this reconciliation is prepared and all variances are researched prior to sending out tax bills each fiscal year.

Board of Education Funds

The Board of Education’s financial management system is not currently used to maintain general ledger control over the Board’s Educational Grants Fund, School Lunch Program or Dental Self Insurance Fund. Maintaining general ledger control would require the posting of transactions into the system and the establishment of asset and liability accounts. Additionally, the direct posting of payroll costs to grants is not performed. Currently, all payroll charges are initially posted to the General Fund budget and subsequently reclassified to the respective grants. We recommend the Board of Education and the Town work together to record these funds on the financial management system and ensure all assets and liabilities are posted in accordance with accounting principles generally accepted in the United States of America.

New Accounting Standard Updates

GASB Statement No. 54

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The requirements of this Statement are effective for financial statements for the periods beginning after June 15, 2010.

The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement also establishes fund balance classifications based on the extent to which a government is restricted by constraints imposed upon the use of the resources reported in the governmental funds. We recommend the Town establish a comprehensive plan to address the various provisions and effects of the new reporting standard. Although the implementation date for the Town is for the fiscal year ending June 30, 2011, the Town should develop a systematic plan that requires analysis of the constraints imposed upon the use of the various governmental fund resources, as well as to ensure the proper fund classification in accordance with the new fund definitions.
This letter should be read in conjunction with our report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards dated October 31, 2009.

This communication is intended solely for the information and use of management, the Board of Finance, others within the organization, and federal and state awarding agencies, and pass through entities and is not intended to be and should not be used by anyone other than thee specified parties.

Blum, Shapiro & Company, P.C.

October 31, 2009