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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, 2010, 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

Risk Assessment

As part of the annual audit, we are required to obtain an understanding of the internal control environment of the Town in order to assess the overall risk of material misstatement. We are also required to obtain audit evidence that the controls in place are documented properly. In conjunction with this overall assessment, we offer the following recommendations to strengthen the control procedures of the Town and Board of Education:

- The Board of Education should develop procedures to document the review of payroll registers, encumbrances and compensated absences calculations.
- The Board of Education should consider segregating the payroll functions of entering time, processing checks and completing bank reconciliations.
- The Board of Education should develop procedures through which W-2s can be reviewed and approved prior to filing.
- The Town and Board of Education should test its disaster recovery plan and ensure proper backup tapes offsite.

Accounts Payable

Beginning fund balance figures on the Town's financial management system were overstated for several funds. As a result, additional analysis was needed to determine the cause of these variances. Audit adjustments were required to correct the Town's financial statements. It was determined that a check run subsequent to year-end was posted incorrectly in the Town's financial management system. This particular check run was originally posted to the wrong

fiscal year and a series of entries were then posted in the general ledger to correct the problem. The manual journal entries made to the system to correct the activity were inappropriately posted to budgetary control accounts in their respective funds. Appropriation Budget Control and Revenue Budget Control accounts are set up within the Financial Management System for budget purposes only and should net to zero; they are not used to record actual activity. We recommend procedures be developed to ensure the accurate posting of accounts payable at year end.

Cash Reconciliations

Several adjustments were posted to the general ledger after the year-end bank reconciliations were performed. It was noted during our audit that cash transfers to eliminate interfund activity were posted to the wrong fiscal year. Reclassification entries were necessary to accurately reflect the proper cash balances at June 30, 2010. We recommend that procedures be strengthened to ensure that closing entries are posted within the correct fiscal year and cash balances are accurately stated at year end.

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 to assure that the grand list as approved by the Assessor and Board of Tax Appeals has been appropriately modified and that 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.

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

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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 and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated November 6, 2010.

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

Blum, Shapiro & Company, P.C.

November 6, 2010