

TOWN OF WALLINGFORD, CONNECTICUT  
SPECIAL TOWN COUNCIL MEETING  
FEBRUARY 11, 2009

The following is a record of the minutes of the Special Meeting of the Wallingford Town Council held Wednesday, February 11, 2009 in Room 315 of the Wallingford Town Hall. The Meeting was Called to Order at 6:01 P.M. Chairman Mike Brodinsky announced in the Roll Call that Councilors John LeTourneau, Rosemary Rascati, and Michael Spiteri were present along with Mayor William W. Dickinson, Jr. and Comptroller James Bowes. Mr. Bowes introduced Michael LeBlanc, Partner in Blum, Shapiro and Company, PC, external auditing firm for the Town of Wallingford.

2. WORKSHOP

Discussion with Blum, Shapiro and Company, P.C. on the financial results of the Town, and the Town's Financial Reports for Fiscal Year ending June 30, 2008, and other related matters – Chairman Mike Brodinsky

Chairman Brodinsky introduced and led the discussion by reading the items on the agenda and stating the format of the discussion. He began with a review the Management Letter (*Appendix I*) submitted by BlumShapiro for Fiscal Year ending June 30, 2008.

Mr. LeBlanc set forth that BlumShapiro considered the Town's internal control over financial reporting (internal control) as a basis for designing the auditing procedures for the purpose of rendering an opinion of the Town's financial statements. He said that the audit was not for the purpose of an opinion on the effectiveness of the Town's internal control. He said that BlumShapiro offers constructive suggestions for the Town's consideration on matters involving the internal control over financial reporting and its operation. He continued that this is part of the ongoing process of modifying and improving accounting controls and administrative practices. The report states that the Management Letter should be read in conjunction with their report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* of December 27, 2008. He said that they were not focused on rendering opinions.

Areas of focus of recommendation in the report included:

- Internal Controls
- Journal Entry Form
- Capital Asset Management and Reporting
- Information Systems Review – Town
- Workers' Compensation – Internal Service Fund
- Workers' Compensation and Heart and Hypertension Claim Loss Estimates
- Board of Education-Information Systems Review
- Board of Education-Severance Obligations

In response to a question from Chairman Brodinsky, Mr. LeBlanc said that an example of an internal control would be if one person performed a transaction from beginning to end.

Councilor Michael Spiteri asked Mr. Bowes about the new software in relation to a "segregation of duties." Mr. Bowes said that the software is being evaluated.

Mr. LeBlanc said that the product of the new auditing standards offer a closer look than in the past. He said that performing an assessment raises the level for management. This offers an opportunity to strengthen the processes internally. Mr. LeBlanc said that there should be a standardized form for journal entry that requires an independent review and approval of all journal entries prior to posting. Councilor Rascati asked about data entry with the existing staff, if this could be done. The response was that it could be done with existing staff.

Under Capital Asset Management and Reporting a review of Electric, Water and Sewer was discussed in relation the Town developing capital asset management procedures. Mr. Bowes interjected that some of the software packages that they are evaluating offer such a system. Mr. Bowes said that a new software system would be fully implemented within a year. He said that training is a large component and that modules would be launched one at a time. He said he hopes for a 15-year software life span.

Several recommendations were made in the Workers' Compensation section and in the Workers' Compensation and Heart and Hypertension Claim Loss Estimates section of the Management Letter.

In the Board of Education-Information Systems Review section, documentation of information system policies need to be completed. They discussed system restrictions and how that is documented; recovery components; if system backups are performed and if they are they maintained off-site. Mr. LeBlanc said that the Board of Education has asked for a specific list. In the Board of Education-Severance Obligations section developing a standardized form for tracking purposes was recommended.

Mr. LeBlanc said that BlumShapiro opinions were rendered on the "Basic Financial Statements", pages 13 - 57 of the *Comprehensive Annual Financial Report June 30, 2008* and that these pages were the focus of the audit.

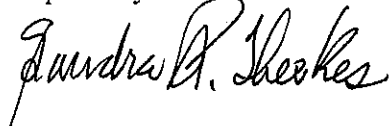
3. Public Question and Answer on Matters discussed in the Workshop.

Debbie Gross, 114 Long Hill Road, asked about retirement payout, PTO, Workers' Compensation accrual, the elimination of the internal auditor position. Mr. Bowes said that the functions of the internal auditor were not eliminated. He added that an true internal auditor should no report directly to the Comptroller but to an independent entity. Recommendations to the Charter were suggested.

Councilors LeTourneau, Rascati, Spiteri and Brodinsky agreed to adjourn at 7:07 P.M.

*(Also included in the Appendix Section are the General Government responses of the Comptroller.)*

Respectfully submitted.



Sandra R. Weekes  
Town Council Secretary

Note: There is no audio recording of this meeting.

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Chairman, Mike Brodinsky

Date

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Town Clerk, Barbara Kapi

Date



Town of Wallingford, Connecticut

JAMES M. BOWES  
COMPTROLLER

DEPARTMENT OF FINANCE  
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MEMORANDUM

DATE: February 2, 2009  
TO: Town Council Members  
FROM: James M. Bowes, Comptroller *JMB*

We received the following two reports from our external auditors today, which are being forwarded to you:

1. Management letter with the auditor's recommendations for the fiscal year ended June 30, 2008. I have included my responses to the General Government comments as well.
2. Professional auditing standards letter under the U. S. Office of Management and Budget (OMB) Circular A-133.

Call me if you have any questions regarding these reports.

JMB/mgn  
Enclosures

*Council Rec'd Paper Copies*  
RECEIVED  
FEB 03 2009  
WALLINGFORD  
TOWN COUNCIL

*Scanned & emailed to  
L. Saito*

# BlumShapiro

To the Town Council  
Town of Wallingford, Connecticut

In planning and performing our audit of the financial statements of the Town of Wallingford, Connecticut (the Town) as of and for the year ended June 30, 2008, 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.

## Internal Controls

During the course of the audit, internal control risk assessments were performed and general recommendations communicated to accounting personnel and management. As part of the process of modifying and improving accounting controls and administrative practices, we recommend that management further evaluate the accounts payable and payroll functions as well as the tax billing, collection and adjustment processes to establish additional segregation of duties. Additional segregation of duties can include segregating specific functions that a person is responsible for as well as implementing additional oversight and documented reviews into the process.

## Journal Entry Form

Throughout the year and particularly at fiscal year end, journal entries will be posted to the financial management system to post transactions that are not system generated via the accounts payable and payroll modules, to reclassify transactions, and to update account balances and estimates. We recommend that the Department of Finance implement the use of a standardized and sequentially controlled journal entry form requiring the independent review and approval of all journal entries prior to posting.

## Capital Asset Management and Reporting

The Town does not have procedures to properly account for the changes in capital assets. Internal procedures do not control the reporting requirements for summarizing asset additions and disposals and the reporting of construction in progress activity. We recommend that the Town implement capital asset management procedures for tracking asset additions, donated assets (including infrastructure), disposals and construction in progress.

A review of the Town's electric, water and sewer enterprise funds capital asset management processes disclosed that capital asset management is accounted for on Excel spreadsheets and, in many instances, detail subsidiary records are not maintained to document capital asset cost amounts.

The Town should consider the implementation of a capital asset management system to enhance the ability to account for asset additions and disposals; provide reporting of gains and losses on the disposal of capital assets; calculate annual depreciation; maintain detail subsidiary records of all capital assets; and, improve reporting capabilities for financial statement presentation, utility industry reporting and insurance coverage analysis.

#### Information Systems Review - Town

A general review and assessment of the Town's financial information systems disclosed that the Town's current Disaster Recovery Plan includes many required components including procedures for off-site backup, data storage and data redundancy. However, we noted that the Disaster Recovery Plan does not detail how the Town's financial information systems business processing will be recovered in the event of a disaster. We recommend that the Town modify its Disaster Recovery Plan to detail how financial business processes will be recovered in the event of a disaster in conjunction with other changes that will be made in IT system controls with the implementation of a new financial management system.

#### Workers' Compensation - Internal Service Fund

In accordance with the Charter, the Town has established accounts payable reserves in the General Fund and the water, sewer and electric enterprise funds, to fund current claims payable on existing workers' compensation claims. This concept does not properly account for the full liability that should be accrued for in the Enterprise Funds. Additionally, the accrual of the accounts payable reserve in the General Fund is not in accordance with fund based accounting principles under the modified accrual basis of accounting.

We recommend that the Town establish an Internal Service Fund to account for the self-insured component of workers' compensation claims. Initial funding for the fund should be provided by transferring the accounts payable reserve funds in the General Fund and Enterprise Funds. Current claim payments should be charged directly to the Internal Service Fund. Annual transfer of budgeted amounts from the General Fund and Enterprise Funds would fund the new fund. Charter provisions limiting the amount of reserves for projected losses of existing claims should be reviewed in conjunction with establishing funding provisions for the new Internal Service Fund.

#### Workers' Compensation and Heart and Hypertension Claim Loss Estimates

The Town currently uses a third party administrator to provide loss estimates on existing and potential future claims for workers compensation, and heart and hypertension. The loss projections on existing claims are used to record the Town's estimated recorded liability for government-wide full accrual financial statement reporting. In their report, the third party

administrator recommends that the Town have the estimated liability actuarially determined using an independent actuarial analysis. We concur with this recommendation since the use of an actuary will provide the opportunity to establish and document assumptions used in the annual calculation of the accrued liability. Particular attention should be given to calculating the total estimated liability on existing heart and hypertension survivor benefits and workers compensation disability claims.

Board of Education - Information Systems Review

Our general review and assessment of the Board of Education's Financial Information Systems disclosed that formalized controls over Financial System Information and processes are in various stages of development. We recommend that the Board of Education complete the documentation of its information systems policies.

Board of Education - Severance Obligations

A standardized form is not utilized to document the computation of a retiree's severance payment obligation for accrued time, payable upon retirement. We recommend that the Board of Education implement the use of a standardized calculation form that will also provide for the designation of required approvals. Severance payments for unused accrued time are commonly amortized out over a period of years and are tracked on an Excel spreadsheet for employees who have retired. Internal policies and procedures should be improved to provide for the periodic update and reconciliation of the retirement obligations payable spreadsheet with payments made during the year and additions for new retirees.

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 December 27, 2008.

This communication is intended solely for the information and use of management, members of the Town Council and Board of Education, 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.*

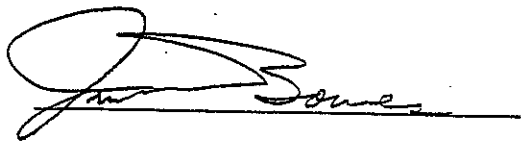
December 27, 2008

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TOWN OF WALLINGFORD CT  
TREASURER

RESPONSES TO AUDITOR COMMENTS OF  
JUNE 30, 2008 MANAGEMENT LETTER

1.     Internal Controls  
We are in the process of documenting the procedures utilized in these functional areas and evaluating these procedures to ensure strong segregation of duties as noted by the auditors.
  
2.     Journal Entry Form  
The Finance Department will develop a standardized form, which will document concurrent approval at time of the journal entry.
  
3.     Capital Assets  
The Town will address these issues with the implementation of the new financial system.
  
4.     Information Systems Review  
The Town will document how it will address financial business processing in the event of a disaster with the implementation of the new financial system.
  
5.     Worker's Compensation - Internal Service Fund  
The Town will review this recommendation, along with the auditing firm and Risk Manager, and determine the ramifications in an attempt to comply in the June 30, 2009 financial statements.
  
6.     Heart and Hypertension Claim Loss Estimates  
The Town will evaluate the benefit of having an actuarial determined liability for this.

All other comments are regarding Education operations and will be addressed by administration of the Board of Education.



James M. Bowes, Comptroller  
February 2, 2009

# BlumShapiro

To the Town Council  
Town of Wallingford, Connecticut

We have audited the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Wallingford, Connecticut, for the year ended June 30, 2008 and have issued our report thereon dated December 27, 2008. Professional standards require that we provide you with the following information related to our audit.

## Our Responsibilities Under Auditing Standards Generally Accepted in the United States of America, OMB Circular A-133 and the State Single Audit Act

As stated in our engagement letter dated May 2, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the Town of Wallingford, Connecticut's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and not to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Act.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of obtaining reasonable assurance about whether the Town of Wallingford, Connecticut's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133 and the State Single Audit Act, we examined, on a test basis, evidence about the Town of Wallingford, Connecticut's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* applicable to each of its major federal programs, and the compliance requirements described in the Compliance Supplement to the State Single Audit Act applicable to each of its major state programs for the purpose of expressing an opinion on the Town of Wallingford, Connecticut's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Town of Wallingford, Connecticut's compliance with those requirements.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

#### Other Information in Documents Containing Audited Financial Statements

Management may include the audited financial statements in an official statement for the sale of debt and/or other documents such as an annual report. Our responsibility for the other information in these documents containing the Town of Wallingford, Connecticut's financial statements does not extend beyond the financial information identified in this report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We have not performed any additional procedures with respect to these documents.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 15, 2008.

#### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Town of Wallingford, Connecticut, are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Town of Wallingford, Connecticut, during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were the useful lives of general government capital assets and the potential employee vesting percentages used for the compensated absences accrued liability. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. There were no sensitive disclosures affecting the financial statements.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Independence

There are no relationships between any of our representatives and the Town of Wallingford, Connecticut that in our professional judgment may reasonably be thought to bear on our independence.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 27, 2008.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Town of Wallingford, Connecticut's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Audit Findings or Issues

We reported two significant deficiencies in our Report on Internal Control over Financial Reporting included in the State and Federal Single Audit reports relating to the Town of Wallingford, Connecticut's Financial Management Systems and Tax Department/Tax Collection System. For more information see Part II Financial Statement Findings in the State and Federal Single Audit Reports, Findings 2008-1 and 2008-2.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Town of Wallingford, Connecticut's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

This information is intended solely for the use of the Town Council and management of the Town of Wallingford, Connecticut, and is not intended to be and should not be used by anyone other than these specified parties.

*Blum, Shapiro & Company, P.C.*

December 27, 2008

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TOWN OF WALLINGFORD CT  
TREASURER