

Town of Putnam, Connecticut

**Communication of Certain
Internal Control Related Matters**

June 30, 2014

To management and the Board of Finance of the
Town of Putnam, Connecticut

In connection with our audit of the financial statements of the Town of Putnam, Connecticut (the “Town”), as of June 30, 2014 and for the year then ended, auditing standards generally accepted in the United States of America (“US GAAS”) require that we advise management and the Board of Finance (hereinafter referred to as “those charged with governance”) of internal control matters identified during our audit.

Our responsibilities

Our responsibility, as prescribed by US GAAS, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as “internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we express no such opinion on internal control effectiveness.

Identified deficiencies in internal control

During our audit, we became aware of the following deficiencies in internal control, other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiencies.

Small Cities Rehabilitation Loan Program

During our audit, we noted that the Town does not account for its deferred rehabilitation loans under the Small Cities Community Development Block Program on its general ledger.

We recommend that a detailed schedule of deferred rehabilitation loans be maintained and periodically updated throughout the year and at the end of the Town’s fiscal year.

Grant Monitoring

The Town currently receives numerous grants from the Federal Government and State of Connecticut. These grants are often administered by various Town departments, other than the Town's Finance Department. During the current year audit, we noted that the Town's Finance Department is not always aware of the status of grant awards and grant reimbursement requests submitted to awarding agencies, which could result in situations where grant revenue is not being recognized when related costs are incurred.

We recommend increased communication between the Finance Department and the various departments administering the grants. In addition, we recommend policies and procedures be adopted to include, at minimal, an annual reconciliation between the Town Finance Department and the various departments administering grants, to ensure proper recording of all grant revenue and expenses. These procedures should be incorporated into the Town's year-end closing procedures.

Accounts Payable and Encumbrances

During our audit, we noted that the Town did not prepare a detailed listing of accounts payable as of year-end. In addition, we noted that the Town does not currently have a formal procedure relating to year-end cut-off of encumbrances. Encumbrances are commitments related to unperformed, legally binding contracts for the purchase of goods or services. Encumbrances are not considered expenditures or liabilities in accordance with accounting principles generally accepted in the United States of America ("GAAP"), but represent a budgetary tool for estimating the amount of expenditures to be incurred if unperformed contracts and purchase orders in process are completed.

We recommend that the Finance Department prepare a detailed accounts payable listing and reconcile the listing to the general ledger as part of the annual closing process. We recommend that the Town's Finance Department review all open purchase orders in connection with its annual closing process, and more frequently if deemed necessary, to determine if the open purchase orders still represent valid obligations. Purchase orders that no longer represent valid obligations or that are required to be recommitted against the subsequent year appropriation should be closed out as part of the annual closing process.

Cross Training of Accounting Employees

The Town currently relies solely on individual employees to perform significant accounting processes (payroll, payables, and cash receipts). These employees are not currently cross-trained to perform each other's responsibilities should the need arise.

We recommend that the Town cross-train its employees within the Finance Department. By having employees cross-trained with the knowledge of another employee's particular job, the Town will improve its ability to continue processing transactions in the event an employee is absent or falls behind performing their duties.

We appreciate the courtesies extended to us by the management and staff of the Town, and would be happy to discuss the above matters further at your request.

This communication is intended solely for the information and use of the Board of Finance and management of the Town, the Office of Policy and Management, and federal and state awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Mahoney Sabol + Company, LLP

Glastonbury, Connecticut

February 27, 2015