

To the Board of Finance of  
the Town of Willington, Connecticut

In connection with our audit of the basic financial statements of the Town of Willington, Connecticut (the "Town") as of and for the year ended June 30, 2006, we present for your consideration the following comments and recommendations on matters which came to our attention during the course of our audit. These items do not represent material weaknesses or reportable conditions and, therefore, were not included in our audit report.

## **STATUS OF PRIOR YEAR RECOMMENDATION**

### **Infrastructure Reporting**

The implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 requires the reporting of infrastructure assets. Infrastructure assets are long-lived capital assets that are normally stationary in nature and preserved for a significantly greater number of years than most capital assets. Examples are roads, bridges and sewers. Infrastructure assets have been reported prospectively by the Town beginning with the fiscal year ended June 30, 2003. However, the GASB Statement No. 34 transition guidelines allow governments to phase in the provisions relating to retroactive reporting of infrastructure, thus allowing the Town, to postpone retroactive reporting until July 1, 2006. Accordingly, the Town has elected to defer the implementation of the retroactive reporting.

We recommend that the Town develop a comprehensive plan and timeline for implementation. The Town's statement of net assets, which is one of the primary government-wide financial statements, will present a significant increase in net assets when the retroactive infrastructure element is added. Accordingly, reporting of these assets will improve the financial position and provide a more complete reporting to financial statement users.

During the current year audit it was noted that the retroactive reporting of infrastructure was not yet completed. However, management believes that they will be able to implement the retroactive reporting of infrastructure by the July 1, 2006 reporting deadline.

## **CURRENT YEAR RECOMMENDATIONS**

### **Inappropriate/Unauthorized Disbursement**

During our audit, it came to our attention that a disbursement was made by the Board of Education to the Willington Fire Department. At the time of the disbursement, there was no supporting documentation for the disbursement (i.e. no purchase order, encumbrance, invoice, etc.). Our understanding is the disbursement related to the installation of an electric generator, which was budgeted, but for which the appropriation was about to lapse.

## **CURRENT YEAR RECOMMENDATIONS *(Continued)***

### **Inappropriate/Unauthorized Disbursement *(Continued)***

Although we noted that the above situation was subsequently rectified and the funds were returned to the General Fund subsequent to fiscal year end, we recommend that the Town or Board of Education never engage in a practice intended to avoid a lapse in an appropriation. Such practices constitute an abuse and compromise the Town's internal accounting and financial reporting.

## **IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45: *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

This Statement establishes standards for the measurement, recognition, and display of other post employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post employment healthcare, as well as other forms of post employment benefits when provided separately from a pension plan. For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership, including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits, of 200 or more, or at least triennially for plans with a total membership of fewer than 200.

We recommend that the Town engage an actuary to discuss the Town's other post employment benefits, and if necessary, have a preliminary valuation performed to determine the magnitude of any OPEB liability, and determine whether the Town will begin to prefund the obligation or not.

## **IMPACT OF RECENTLY ISSUED AUDITING STANDARDS**

In March 2006, the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) issued eight Statements on Auditing Standards (SAS) relating to the assessment of risk in an audit of financial statements, as follows:

- SAS No. 104, *Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures*
- SAS No. 105, *Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards*
- SAS No. 106, *Audit Evidence*
- SAS No. 107, *Audit Risk and Materiality in Conducting an Audit*
- SAS No. 108, *Planning and Supervision*
- SAS No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- SAS No. 110, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*
- SAS No. 111, *Amendment to Statement on Auditing Standards No. 39, Audit Sampling*

## IMPACT OF RECENTLY ISSUED AUDITING STANDARDS (*Continued*)

The above SASs are effective for periods beginning on or after December 15, 2006 and establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. The primary object of the SASs is to enhance the auditor's application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.
- More rigorous assessment of the risks of material misstatement of the financial statements based on that understanding.
- Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks.

In addition, in May 2006, the ASB issued SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. SAS No. 112 establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. Among other provisions, SAS No. 112:

- Defines the terms "significant deficiency" and "material weakness";
- Provides guidance on evaluating the severity of control deficiencies identified in an audit of financial statements; and
- Requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit.

It is anticipated that the more rigorous audit approach required by the risk assessment standards (SAS No. 104 through SAS No. 111), coupled with the revised standards on communicating internal control related matters set forth in SAS No. 112 will result in the identification and reporting of a larger number of matters that will be considered significant deficiencies or material weaknesses in internal control. As a practical example, the fact that the auditor prepares an entity's financial statements would be considered a control deficiency (auditors cannot be a component of an entity's internal control) that would at least rise to the level of a significant deficiency and that would have to be communicated in writing to management and those charged with governance.

We recommend that the Town assume the responsibility for preparing the annual basic financial statements in conformity with accounting principles generally accepted in the United States of America.

We appreciate the assistance and courtesies extended to us by the Town's management and staff during the audit process, and we would be happy to discuss the above matters further.

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

*Carlin, Charon & Rosen, LLP*

Glastonbury, Connecticut  
December 22, 2006