

To the Members of the Board of Finance
City of Stamford, Connecticut

In planning and performing our audit of the financial statements of the City of Stamford, Connecticut, as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Stamford, Connecticut'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 City of Stamford, Connecticut's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Stamford, Connecticut's internal control.

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

Matters Noted in Previous Years

The following matters involving internal control over financial reporting and its operation were noted in previous years but have not been fully remediated.

Tax Collector's Report

The Tax Collector's Office is expected to provide the tax collector's report, with all supporting documentation (including the software-generated sub-ledger reports), and the reconciliation between the report and the HTE general ledger system at the commencement of year-end audit field work. The Controller's Office issues instructions to that effect in its year-end memos to departments, including the Tax Collector's Office, on the financial close process. The version of the tax collector's report that was provided to us at inception of our year-end final field work did not tie to the sub-ledger supporting documentation, and therefore, was not easily understandable or auditable, even by more experienced staff members. Amounts that should be easily tied to sub-ledger reports - as they are in other municipalities using the same software application - included numerous exceptions, making the review and auditing of the tax collector's report both difficult, and unnecessarily time consuming. The final version of the tax collector's report we received still did not reconcile to the HTE general ledger system and required an additional adjusting journal entry to finally bring the year-end balances into agreement.

Recommendation

We recommend that the tax collector's report along with all supporting documentation be provided at the inception of year-end field work. Supporting documentation should include system-generated reports that clearly tie to each section being reported on in the tax collector's report to the detail records. In addition, a full reconciliation of revenues collected to amounts received along with the roll forward of tax-related accounts receivable should be provided to ensure that totals agree to the HTE general ledger system. It may be helpful to institute a detailed checklist to ensure that all tasks are completed appropriately.

Operating Grants - Projects Accounting and Tracking

Grant-funded projects are tracked in a database maintained by the Grants Department but transaction activity for many of the grant-funded projects is not regularly reconciled to the related project accounts in the City's HTE general ledger system. Revenues and expenditure transaction activity is not being properly recorded in the Grants Department database, which is used to manage project spending, resulting in a lack of appropriate control over project management and reporting.

Recommendation

We recommend that the Grants Department take the following steps in order to ensure proper and timely reporting of the grant activities:

- Roll forward previous fiscal year-end operating grants schedules in the reporting formats developed in conjunction with the Controller's Office to ensure the grant-funded project census and the beginning balances in the database are accurate;
- Record budgeted revenue for active projects where the City provides funding by journal entry to the City's HTE general ledger system and then in the operating grants database;
- Update the database to reflect actual revenues received for active projects funded by others (State of Connecticut, federal grants, private groups, etc.) and the actual expenditures made for each project by month per the City's HTE general ledger system for the fiscal year-to-date; and
- On a quarterly basis, update the schedules in the reporting formats developed in conjunction with the Controller's Office so that they reflect fiscal year-to-date transaction activity for all grant-funded projects and the balances by project agree to the City's HTE general ledger system balances for the fiscal year-to-date. This timely review and reconciliation will ensure that any adjustments that are needed to reconcile the Grant Department database and the City's HTE general ledger are made earlier in the year-end financial close process.

Grant-Funded Capital Projects - Reimbursement and Collection Issues

Although there has been a significant reduction in the amount of long-outstanding capital project grants receivable, there still needs to be a more current review of expenditures that qualify for reimbursement and a timelier submission of expenditure reimbursement requests.

Recommendation

We recommend that the Grants Department take the following steps in order to ensure reporting of the accounts receivable:

- Roll forward previous fiscal year-end grant-funded capital projects accounts receivable schedules in the reporting formats developed in conjunction with the Controller's Office to ensure the grant-funded project census and beginning balances in the database are accurate;
- On a quarterly basis, update the grant-funded capital projects accounts receivable worksheet to reflect updated accounts receivable balances by project per the capital grants database and agree the total accounts receivable to the City's HTE general ledger system for the fiscal year-to-date.

- The Controller's Office has assisted the Grants Department with this effort since this issue was first included in this memo by temporarily assigning an individual to complete this work on behalf of the Grants Department. Based on the number of adjusting journal entries booked for the last few fiscal years, it may be appropriate for the Controller's Office to consider staffing levels for this additional responsibility, and for the operating grants reconciliation process, to ensure all schedules and reconciliations are completed timely and properly as early in the year-end closing process as possible.

Schedule of Expenditures for State and Federal Single Audits

During the audit, we noted the completion of the state and federal schedule of expenditures was difficult to finalize. This was mainly attributable to delays in the completion of grant roll-forward schedules for both the operating and capital grants funds making it difficult to ensure the proper recording and testing of major programs for both the state and federal single audits. Although the process seems to be improving from year to year, we need the completion of the roll forwards to be timelier.

Recommendation

We recommend that the Grants Department complete its work in accordance with the timelines provided for in the instructions provided by the Controller's Office in its year-end closing memos using the reporting formats developed in conjunction with the Controller's Office so that the supporting documentation can be provided at the inception of our year-end audit field work. This will help ensure that the testing of major programs for the state and federal single audits can be completed in advance of the due dates for the state and federal single audit reports.

Internal Service Fund

The City is self-insured for police officers' and firefighters' heart and hypertension claims as required by state statute. The pay-as-you-go portion of the claims is paid from the City's Risk Management - Internal Service Fund. The City has committed surplus fund balance of \$1,500,000 for FY2019 (proposed by administration and subject to approval by Boards), \$250,000 for FY2018, \$500,000 for FY2017 and \$300,000 for FY2016. The City utilizes a third party to prepare an actuarial valuation to determine the heart and hypertension claims' liability. The claims' liability is being recorded at the government-wide level as required by GASB Statement No. 34, but it is not recorded in the Risk Management fund.

Recommendation

We continue to recommend that the City record the heart and hypertension liability in the Risk Management fund and establish a long-term plan to fund the deficit created by the recording of this liability.

Matters Noted in the Current Year

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

Allowance for Taxes Receivable

We noted the Tax Collector's Office is not periodically analyzing the allowance for doubtful accounts to ensure the amount is properly recorded at year end.

Recommendation

We recommend the Tax Collector's Office analyze the tax receivables at year end to determine the proper amount needed for uncollectable amounts. In analyzing the allowance, consideration should be given to the impact of such factors as the economic environment, prior suspense write-offs, etc.

GASB 87 - Implementation of Lease Standard

GASB No. 87, *Leases* is effective for fiscal years beginning July 1, 2020. It is critical that the City establishes and executes an implementation plan.

Recommendation

The City should inventory and review all current leases and contracts greater than twelve months to determine if they meet the GASB 87 definition of a lease. This will include all contracts where the City is the lessor or the lessee. The City should consider the following when establishing an implementation plan, including the purchase of any related software applications to support the financial reporting requirements required by GASB No. 87:

- Description of leasing arrangements
- Total amount of leased assets and accumulated depreciation by major class
- Commitments under leases before the commencement date
- Principal and interest requirements for the lease liability by year
- Tracking of impairment-related loss components (see below)
- Tracking of any leasing transaction with related parties

Capital Assets - Impairment of Assets

We noted that the City does not periodically review capital assets for potential exposure to impairments.

Recommendation

We recommend the City implement policies and procedures that ensures a periodic review of capital assets for impairment and that the appropriate adjustments be booked to the net book value of any impaired capital assets, as may be needed.

Cybersecurity Management

Municipal governments can no longer take a “wait and see” attitude toward securing operations and data. Cybersecurity strategies require a new approach to identify where critical information exists that needs to be protected, a new way of foreseeing and deterring the threats that could result in the theft of information or the loss of funds, and a new way to understand the overarching risks associated with cyberattacks. Proactively assessing and managing operations and IT environment(s) in anticipation of these threats and attacks is critical in light of the following:

- Nearly 70% of funds expended due to a cyberevent are unrecoverable and the scale of data breaches and lost funds due to phishing and business e-mail compromise is trending upward exponentially.
- Ransomware attacks force the majority of impacted government entities to pay to restore access to their data.
- Cybersecurity is now considered a key organizational risk, and spending on cybersecurity is projected to increase each of the next 10 years.

Recommendation

Managing your organization’s risk to cyberthreats starts with:

- Understanding your baseline exposure to cyberthreats is a critical best practice. An annual security and vulnerability risk assessment should be performed that identifies and evaluates exposures, hazards and/or potential for breach that could negatively impact an organization’s ability to conduct business.
- Using this assessment, identify and locate personal/confidential information and understand how this information is secured to gain a clear understanding of potential for exposure.
- Risk mitigation plans can then be designed to tighten areas of exposure and establish stronger security protocols. Resources can be applied to the areas most in need of protection.

As a key component to building and maintaining a resilient culture of cybersecurity, strengthening employee cybersecurity awareness through focused training will be a critical component of an organization-wide cybersecurity initiative. Progressive ways of assessing how employees respond to targeted threats through phishing simulation attacks can proactively identify areas of exposure, reinforce learning objectives, identify training opportunities and help identify missing security protocols.

Uniform Guidance Procurement Standards

In conjunction with the receipt of federal funding, the City must comply with procurement standards set out in 2 CFR, sections 200.318 through 200.326, within Uniform Guidance. The City and Board of Education’s procurement standards did not include the essential elements as outlined in 2 CFR, sections 200.318 through 200.326. In the absence of a compliant policy, the City would be at risk for noncompliance as it relates to federal procurement standards.

Recommendation

We recommend that the City review its formal procurement policies and make the necessary changes to comply with the criteria as set out in 2 CFR, sections 200.318 through 200.326.

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 30, 2019.

This communication is intended solely for the information and use of management, Members of 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 the specified parties.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
December 30, 2019