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December 28, 2016

Board of Selectmen
Town of Hartford
171 Bridge Street
Hartford, Vermont 05001

We have audited the financial statements of the Town of Hartford, Vermont as of and for the year ended June 30, 2016 and have issued our report thereon dated December 28, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the Town of Hartford, Vermont's internal control over financial reporting (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 expressing an opinion on the effectiveness of the Town of Hartford, Vermont's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Hartford, Vermont's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Town of Hartford, Vermont's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations as Items 2016-1 through 2016-4 to be significant deficiencies.

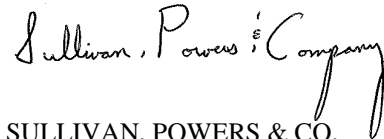
We have also noted other matters during our audit as indicated in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations that are opportunities for strengthening internal control and operating efficiency. We have discussed the recommendations with the staff during the course of fieldwork and some of the recommendations may have already been implemented.

The Town of Hartford, Vermont's responses to the deficiencies in internal control identified during our audit are included with the accompanying Schedule of Deficiencies In Internal Control and Other Recommendations. We did not audit the Town of Hartford, Vermont's responses and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Selectboard and others within the Town of Hartford, Vermont and is not intended to be and should not be used by anyone other than these specified parties. If you would like to discuss any of the recommendations further, please feel free to contact us.

We would like to take this opportunity to thank the staff of the Town of Hartford, Vermont for their assistance and cooperativeness throughout our audit. It has been a pleasure working with you.

Respectfully submitted,

A handwritten signature in cursive script that reads "Sullivan, Powers & Company". The signature is written in black ink and is positioned above the printed name of the firm.

SULLIVAN, POWERS & CO.
Certified Public Accountants

TOWN OF HARTFORD, VERMONT
SCHEDULE OF DEFICIENCIES IN INTERNAL
CONTROL AND OTHER RECOMMENDATIONS
JUNE 30, 2016

Deficiencies in Internal Control:

Material Weaknesses:

None noted.

Significant Deficiencies:

2016-1 Review and Approval of Journal Entries

Criteria:

Internal controls should be in place that require appropriate individuals to approve adjustments to the books of original entry and that the adjustments have adequate supporting documentation.

Condition:

Internal controls over recording of journal entries are inadequately designed. The Town does not adequately document or approve all journal entries.

Cause:

Unknown.

Effect:

Other internal control policies could be circumvented.

Recommendation:

We recommend that the Town implement procedures to ensure that all journal entries are supported by documentation as to how the amounts were derived. Also, journal entries prepared by the Finance Director should be approved by an appropriate individual, such as the Town Manager.

Management Response:

This recommendation will be implemented by the new Finance Director.

2016-2 Recording of Receivables and Revenues

Criteria:

In order to ensure the accuracy of financial statements and general ledger amounts, policies and procedures should be in place to provide for monthly recording of receivables and revenues.

Condition:

The Town records many of its revenues on the cash basis during the year and does not adjust for receivables and deferred inflows. This could cause interim financial statements to be misstated. The related revenues and receivables include ambulance and property taxes.

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Cause:

Unknown.

Effect:

Interim financial statements may not be accurate and asset, liability, deferred inflows of resources and revenue accounts may need adjustments at year end. Further, asset (receivable) balances are not being monitored appropriately.

Recommendation:

We recommend that the Town record receivables monthly for property taxes and ambulance fees. At year end, deferred inflows of resources should be recorded for receivables not collected within sixty (60) days.

Management Response:

This recommendation will be implemented by the new Finance Director.

2016-3 Schedule of Federal Awards

Criteria:

In order to ensure compliance with the Uniform Guidance and various grants, an accurate schedule of expenditures of federal awards should be maintained.

Condition:

The Town did not maintain an accurate schedule of expenditures of federal awards during the year and the one prepared at year end was not complete.

Cause:

Unknown.

Effect:

The Town is not in compliance with the Uniform Guidance, reports to grantors may be inaccurate and the Town's determination as to whether a Single Audit is required may be inaccurate.

Recommendation:

We recommend that the Town maintain a schedule of expenditures of federal awards throughout the year. The Finance Director should be informed of all grants and maintain a file of them to prepare this schedule.

Management Response:

This recommendation will be implemented by the new Finance Director.

2016-4 Tax Increment Financing District Revenue

Criteria:

Policies and procedures should be in place so that the property taxes due to the Tax Increment Financing District are calculated and recorded correctly.

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Condition:

The Town has no policies and procedures detailing the process of calculating the property taxes and any developer contributions.

Cause:

Unknown.

Effect:

The Town incorrectly calculated the property taxes for the Tax Increment Financing District. This also resulted in an incorrect calculation for the amount an outside developer agreed to reimburse the Town. These issues required adjustments to the Town's general ledger.

Recommendation:

We recommend that formal policies and procedures be developed as to how the Tax Increment Financing District property taxes are calculated and which reports to use. This calculation should be done timely at year end so that any developer contribution can be calculated.

Management Response:

The Assessor, Planning and Development Director and Finance Director will develop these policies and procedures.

Other Recommendations:

Approved Voter Budget

The Town does not have a procedure to ensure the amounts from the annual budget approved by the voters are accurately entered into the financial statement software. As a result, incorrect amounts were entered into the software in fiscal year 2016. Therefore, the budget amounts being monitored during the year were not the voter approved amounts. This was caused by using an outdated spreadsheet to enter the budget amounts and errors in the spreadsheet.

We recommend that a procedure be established so that another individual checks the entry of the annual budget into the financial statement software and any spreadsheets used for this purpose. Also, the totals should be agreed to the voter approved amounts.

Fraud Risk Assessment

The Town has not documented their fraud risk assessment. A fraud risk assessment is important because it identifies the Town's vulnerabilities to fraudulent activities and whether those vulnerabilities could result in material misstatement of the financial statements. The fraud risk assessment would also identify processes, controls, and other procedures used to mitigate the identified fraud risks.

We recommend that the Town document their fraud risk assessment.

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Accounting and Procedures Manual

The Town has an accounting and procedures manual in place that includes most of the Town's significant functions, however, the manual has not been updated in several years. Also, the Fire Department does not have written policies and procedures for ambulance billings and collections. An accounting and procedures manual should be in place for all departments. This manual should define duties and responsibilities for current personnel. Written procedures, instructions, and assignment of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. It can also help to ensure that all similar transactions are treated consistently, that accounting principles being used are proper, and that records are produced in the form desired by management. In addition, it can be used for the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs and can help ensure compliance with OMB and grantor requirements.

We recommend that the Town continue to develop this document for every department as soon as possible. Each individual should document their duties and how to perform them. We also recommend that the Town make sure that there are no jobs related to accounting and finance that only one person knows how to perform. The procedures manual would also be useful in determining whether this situation exists.

TIF District

The Town has established a Tax Increment Financing District (TIF). The Town has not documented the procedures regarding changes to the original taxable value, how the accounting is done, what reports need to be filed and other matters.

We recommend that the Town document their procedures and controls over accounting for TIF revenue and related responsibilities.

Property, Plant and Equipment Inventory

The Town has not performed a physical inventory of its property, plant and equipment for several years. As a result, there are numerous old assets in the recorded capital assets which may no longer be in service. A physical inventory helps to support the reported balances of the property, plant and equipment accounts and can help to evaluate the remaining useful lives of assets.

We recommend the Town perform a physical inventory of its property, plant and equipment. The physical inventory should be reconciled with the capital assets recorded on the books and adjustments made as necessary.

Documentation of Internal Control System

A solid understanding of internal control is essential. An organization must continually assess their internal control systems to ensure accurate financial reporting and compliance with laws and regulations. As part of this process, management should formally document its control systems. We expect that this process will take some time to achieve.

This should provide management with an understanding of the systems related to financial reporting, and the controls over relevant assertions related to all significant accounts, disclosures in the financial statements, antifraud programs and controls over the selection and application of accounting policies.

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We recommend that the Town document its internal control process. This should break out the internal control process into the following five areas:

1. Control Environment – Sets the tone of an organization and is the foundation for all other components.
2. Risk Assessment – The identification and analysis of relevant risks to achieve its objectives forming a basis for how risks should be managed.
3. Control Activities – The policies and procedures that help ensure management directives are carried out.
4. Information and Communication – The identification, capture and exchange of information in a form and timeframe that enables people to carry out their responsibilities.
5. Monitoring – The process that assesses the quality of internal control performance over time.

Spreadsheet Errors

Errors were noted in spreadsheets supporting financial statement amounts. The Town has no policy or procedure requiring review and approval of such spreadsheets by another individual other than the preparer.

We recommend the Town develop a procedure to review and approve spreadsheets supporting financial statement amounts.