

**To Board of Finance and Management
Stamford Water Pollution Control Authority**

In planning and performing our audit of the financial statements of the Stamford Water Pollution Control Authority (an Enterprise Fund of the City of Stamford, Connecticut) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Stamford Water Pollution Control Authority'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 Stamford Water Pollution Control Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Stamford Water Pollution Control Authority's internal control.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

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.

We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, as discussed below, we identified a deficiency in internal control, identified below, that we consider to be a significant deficiency.

We consider the following deficiency in Stamford Water Pollution Control Authority's ("SWPCA") internal control to be a significant deficiency:

Capital Assets

We noted the following during our field work:

- The fixed asset detail ledger was not reconciled to the general ledger in a timely manner. The reconciliation was performed by the management of the SWPCA but was completed after the scheduled audit field work had ended.
- Certain City of Stamford capital expenditures were incorrectly processed through SWPCA's books and records because the SWPCA was overseeing the project.
- Certain SWPCA capital expenditures were improperly recorded on the City's fixed asset ledger,
- The construction in progress account has increased over the last 2 years and none of those items in the account have been transferred to "active" status.

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Recommendations:

A reconciliation of the fixed asset ledger to the general ledger should be performed on a regular basis during the year (quarterly). As part of the reconciliation process the capital expenditures being posted to the SWPCA's general ledger accounts should be reviewed for appropriateness and to validate that expenditures for City Capital Assets are not mistakenly posted to the SWPCA's accounts. The reconciliation process could also include a review of all construction in progress so that completed projects can be transferred to active status.

In addition, we recommend that management consider performing a physical inventory of the capital assets on an annual basis to ensure that all assets are accounted for and that retired assets are removed from the schedule.

We also share for your consideration in the attached Appendix A our comments regarding certain other control deficiencies and observations.

This communication is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties. We would be pleased to discuss these communications and comments with you in further detail, or to assist you in implementing the recommendations.

O'Connor Davies, LLP

February 10, 2014

Stamford Water Pollution Control Authority
Appendix A

Other Control Deficiencies and Observations

Pooled Cash Arrangement with the City

The SWPCA is in a cash deficit position for several months of the year and it must rely on the City, through a pooled cash arrangement, to advance money to meet the SWPCA's short-term cash needs. While the cash deficit varies widely throughout the year, and may even be reduced to zero at times, the operating cash deficit at June 30, 2013 increased to \$6.5 million (compared to \$5.6 million at June 30, 2012), excluding approximately \$1.5 million in capital project advances.

We recommend that the pooled cash arrangement between the SWPCA and the City be unwound over time as the SWPCA works itself out of its cash deficit position and establishes financing sources apart from the City.

Financial Statement Preparation

During the year ended June 30, 2013 there were delays by management in producing timely financial statements. We recommend that a standard monthly and quarterly closing process be put in place to allow for a timelier year end closing and the more timely preparation of financial statements throughout the year and at the end of the year.

Billing and Accounts Receivable

We were unable to obtain a master list of all customers or a current street-by-street map of which residents and businesses are connected to sewers. We understand that management is aware of this issue and is addressing it as part of a long-term project to map the sanitary sewer system throughout the City. Having this list available will help to improve internal control over billing by allowing an independent review of the completeness of the billing files.

Outsourcing of Billing and Collection Process

The SWPCA outsources the process for billing and collection of sewer use charges to an organization named Computil. Computil specializes in providing billing and collections services to sewer and water companies and has a list of customers that include many nearby municipalities. As part of our audit, we requested a *Service Auditor's Report* from Computil, which they were unable to provide. It is customary for service organizations such as Computil to provide such a report to its customers and obtaining such a report from an outsourced provider of data processing services represents *best practice*.