

TOWN OF WINCHESTER, CONNECTICUT
Federal Single Audit
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June 30, 2012

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

To the Board of Selectmen of the
Town of Winchester, CT

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Winchester, CT (Town) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 25, 2014. 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.

Internal Control Over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies 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 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 findings and questioned cost as items 2011-01, 2011-05, 2012-01, 2012-02, 2012-03, and 2012-04 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 findings and questioned costs as items 2011-03, 2011-06/2011-02, 2012-05, 2012-06, 2012-07, 2012-08, 2012-09, 2012-10, 2012-11, and 2012-12 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2008-5.

We noted certain matters that we reported to management of the Town in a separate letter dated January 25, 2014.

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Members of the Board of Selectman, others within the Town, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



King, King & Associates, CPAs
Winsted, CT
January 25, 2014

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

To the Board of Selectmen of the
Town of Winchester, CT

Compliance

We have audited the Town of Winchester, CT's (Town) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2012. The Town's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-13.

Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2012, and have issued our report thereon dated January 25, 2014 which contained modified opinions on the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The Town's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and the use of management of the Town, the Board of Selectmen, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

King, King & Associates

King, King & Associates, CPAs
January 25, 2014

TOWN OF WINCHESTER, CONNECTICUT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/ Program Title or Cluster Title	FEDERAL CFDA NUMBER	TOTAL EXPENDED
United States Department of Agriculture		
<i>Passed Through the State of Connecticut Department of Education:</i>		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 56,911
National School Lunch Program	10.555	<u>238,963</u>
		<u>\$ 295,874</u>
United States Department of Education		
<i>Passed Through the State of Connecticut Department of Education:</i>		
Title I, Part A Cluster:		
Title I Grants to Local Educational Agencies, Recovery Act	84.389	7,665
Title I Grants to Local Educational Agencies	84.010	<u>169,927</u>
		177,592
Special Education Cluster:		
Special Education - Preschool Grants	84.173	24,733
Special Education - Preschool Grants, Recovery Act	84.392	4,841
Special Education - Grants to States, Recovery Act	94.391	8,094
Special Education - Grants to States	84.027	<u>276,154</u>
		313,822
Improving Teacher Quality State Grants	84.367	59,935
Education Jobs Fund	84.410	<u>191,514</u>
		742,863
Total United States Department of Education		
742,863		
United States Department of Homeland Security		
<i>Passed Through the State of Connecticut Department of Public Safety</i>		
Disaster Grants-Public Assistance	97.036	108,392
Homeland Security Grant Program	97.067	<u>50,000</u>
		158,392
Total United States Department of Homeland Security		
158,392		
United States Department of Housing and Urban Development		
<i>Passed Through the State of Connecticut Department of Economic and Community Development</i>		
Small Cities Program	14.228	11,123
United States Department of Justice		
<i>Passed Through the State of Connecticut Department of Public Safety</i>		
Internet Crimes Against Children Task Force Program, Recovery Act	16.800	2,917

See notes to schedule.

TOWN OF WINCHESTER, CONNECTICUT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/ Program Title or Cluster Title	FEDERAL CFDA NUMBER	TOTAL EXPENDED
United States Department of Transportation		
<i>Passed Through the State of Connecticut Department of Transportation:</i>		
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	35,250
Highway Planning and Construction, Recovery Act	20.205	<u>26,823</u>
		<u>62,073</u>
Total United States Department of Transportation		62,073
United States Department of Energy		
<i>Passed Through the Office of Policy and Management:</i>		
ARRA Energy Efficiency & Conservation Block Grant	81.128	<u>6,400</u>
Total Expenditures of Federal Awards		<u>\$ 1,279,642</u>

See notes to schedule.

**TOWN OF WINCHESTER, CONNECTICUT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

The accompanying schedule of expenditures of federal awards includes federal grant activity of the Town of Winchester, CT under programs of the Federal Government for the fiscal year ended June 30, 2012. Various departments and agencies of the Federal Government have provided financial assistance to the Town of Winchester, CT, through grants and other authorizations. These financial assistance programs fund several programs including housing, education, human services, transportation and general government activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Winchester, CT conform to accounting principles generally accepted in the United States of America as applicable to Governments.

Basis of Accounting

The financial statements contained in the Town of Winchester, Connecticut's annual report are prepared on the modified accrual basis of accounting. The following is a summary of such basis:

Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are recorded when the related fund liability is incurred, if measurable.

The expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. In accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of Federal Awards.

2. NONCASH AWARDS

Donated commodities in the amount of \$23,027 are included in the Department of Agriculture's National School Lunch Program, CFDA #10.555. The amount represents the market value of commodities received.

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TOWN OF WINCHESTER, CONNECTICUT SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

I. SUMMARY OF AUDIT RESULTS

Financial Statements

We audited the financial statements of the Town of Winchester, CT as of and for the year ended June 30, 2012 and issued our modified report thereon dated January 25, 2014.

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

We have issued a unmodified opinion relating to compliance for major Federal programs.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

Yes No

FINDING #2012-01

Criteria: Proper separation of duties over bank reconciliations and statement review is an essential component of internal control.

Condition: Bank Reconciliations were not maintained, and had to be performed for the entire year during the audit process. Numerous adjustments were identified and recorded, significantly changing cash balances in several funds and changing cash balances in other funds by lesser amounts.

Context: Informally, responsibility for the Bank reconciliations was moved to the former Finance Director, who received all bank statements and also maintained cash balances in the General Ledger.

Effect: Inaccurate financial reporting. Inadequate separation of duties and monitoring.

Cause: The Treasurer was assigned this responsibility; however, the duties were shifted to the former Finance Director due to difficulties the Treasurer encountered in performing the reconciliations.

Recommendation: Bank reconciliations should be prepared or reviewed by an individual not responsible for maintenance of cash balances in the General Ledger

Views of Responsible Officials and Planned Corrective Actions:

The Treasurer took back the bank reconciliation function after the former Finance Director was placed on leave in November 2012. The Treasurer performs monthly bank reconciliations for the General Fund, Water Works Fund and Sewer Fund. The Treasurer has no posting access to the General Ledger system, only inquiry. The Treasurer works with the Assistant Finance Director in gathering all the check runs and deposit documentation for the period under review. The completed bank reconciliations are presented to the Finance Director and then reviewed by both the Treasurer and Finance Director. Any discrepancies are noted and adjustments are made if necessary.

FINDING #2012-02

Criteria: Adequate financial records of cash balances and activity should be maintained.

Condition: Bank statements for many accounts could not be located in Town offices.

Context: Bank statement retention was the duty of the Former Finance Director.

Effect: During the audit, the Town had to request copies of bank statements in order to start performing reconciliations for Town accounts.

Cause: Unknown

Recommendation: Bank statements should be retained as part of the financial records of the Town. The records may be maintained manually or digitally. If kept digitally, adequate procedures should be established for integrity of digital recordkeeping.

Views of Responsible Officials and Planned Corrective Actions:

Due to the actions of the former Finance Director, records from prior years were unable to be located. All bank statements and reconciliations are now kept in file cabinets or stored digitally and will be available for auditor review.

FINDING #2011-01

Criteria: Separation of duties over the processing of cash receipts is an indicator of adequate internal control.

Condition: There is a lack of segregation of duties over deposits. The former Finance Director had control over all cash receipts for deposit of town money as well as the general ledger entry.

Context: The former Finance Director offered to assist various town departments with the processing of daily cash receipts. This led to the preparation of deposit slips for the bank deposit. There was no separation between cash handling duties and general ledger maintenance.

Effect: Inaccurate financial reporting. The former Finance director was able to manipulate cash receipts and the recording of revenues in the general ledger to enable the embezzlement of funds over a time period of at least five years.

Cause: Lack of separation of duties between cash handling, deposits, and general ledger entry. Many of the individual departments did not prepare summaries of the contents of the deposit to accompany cash receipts remitted to the Finance office.

Recommendation: Separation of duties between initial cash counts and general ledger entry must be established, so that general ledger activity can be reconciled to documents prepared by other individuals or departments. In addition, departments generating cash deposits should prepare summaries of the deposits to be maintained as part of the permanent financial records.

Views of Responsible Officials and Planned Corrective Actions:

The current Finance Director does not handle deposits unless the both Assistant Finance Directors are unavailable. All deposits come to the Assistant Finance Director either in a sealed tamper proof bag, or with an excel spreadsheet which contains the itemized listing of checks and currency as well as the accounts for posting. For those deposits that come with an excel spreadsheet, the Assistant Finance Director counts the checks and currency in front of the employee who brought the deposit to them. Then, the Assistant Finance Director signs off on the excel spreadsheet and gives a copy back to the employee who brought the deposit to her. Then the Assistant Finance Director takes all the deposits that are not in a tamper proof bag to the other Assistant Finance Director and she prepares the deposit slip. Two employees bring the deposits to the bank. The Tax Office and the Town Clerk's office receive a copy of the bank generated deposit slip to match up to their records. Additionally, every month, departments receive a print out of their revenues to compare what they brought up to the Accounting office for deposit with what was posted in the General Ledger system.

FINDING #2011-05

Criteria: Standard accounting practices include a self-balancing double-entry financial reporting system.

Condition: Multiple fund trial balances do not balance in the Town Hall's computerized general ledger system.

Context: The controls in the financial software were modified to allow journal entries that do not balance (debits do not equal credits).

Effect: Inaccurate financial reporting. Out-of-balance general journal transactions were posted, resulting in trial balances whose debits do not equal the credits. Improper journal entries were recorded to allow adjustment of accounts. Unrelated accounts were combined into one entry with the differences posted to fund balance. Unsubstantiated journal entries were made to adjust unreconciled variances or to adjust account balances to budgeted amounts.

Cause: The former Finance Director requested the ability to record one-sided journal entries from the software provider.

Recommendation: Fund trial balances should be in balance; the control to prohibit out-of-balance journal entries should be put in place permanently. A record of general journal entries should be maintained with supporting documentation as part of the financial record. Entries to fund balance should be subjected to independent review.

Views of Responsible Officials and Planned Corrective Actions:

The General Ledger system no longer allows for one-sided journal entries. That functionality was disabled upon request of the current Finance Director in March 2013. Representatives of the software provider will have to post one-sided entries as directed by the Finance Director after seeking approval from the auditors to correct existing unbalanced trial balances. Entries to fund balance will not be made unless the auditors have been consulted and are in agreement.

FINDING #2012-03

Criteria: Adjustments to opening fund balance, referred to as prior period adjustments, should not be necessary.

Condition: Opening fund balance was adjusted for the following funds: General, Small Cities, Dog, EFTPS, Sewer, Water, Brownfields Pilot, Skate Park, and Capital Improvements Fund.

Context: A number of adjustments were necessary to adjust opening account balances to the actual prior period ending balances. The offsetting adjustment is often to fund balance to prevent the misstatement of the current period's results.

Effect: The General, Sewer, and Skate Park opening fund balances were decreased, and the Small Cities, Dog, Water, and Capital Improvements opening fund balances were increased.

Cause: Unreconciled differences between the general ledger existed in the General, Water, Sewer, Brownfields Pilot, and Skate Park funds. The Dog Fund was separated from the General Fund. The loan balances in the Small Cities Fund were reclassified from deferred

revenue. The Main St. Project's previously authorized appropriation was transferred from the General Fund. The EFTPS fund was combined with the General Fund, as its primary purpose is to collect and remit payroll taxes.

Recommendation: All relevant financial information should be recorded timely and accurately.

Views of Responsible Officials and Planned Corrective Actions:

The General Ledger system has been seriously impaired due to the actions of the former Finance Director. While there may still be some adjustments during the preparation of 2012-13 financial statements, the current Finance Director worked with the auditors to clean up almost all of the erroneous accounts and records. It is the intent of the current Finance Director to ensure all relevant financial information is contained within the General Ledger system and that it is recorded accurately and timely.

FINDING #2012-04

Criteria: Periodic reconciliation of trial balance accounts is necessary for control over financial reporting.

Condition: Reconciliation of the General Fund balance sheet accounts was not performed.

Context: Numerous asset and liability accounts in the General Fund were not reconciled to supporting documentation. This was also true to a lesser extent in some of the other Town funds.

Effect: Inaccurate financial reporting.

Cause: Investigation and reconciliation of numerous asset and liability balances was not performed. Adjustments made to these accounts were sometimes unsubstantiated.

Recommendation: Asset and liability accounts should be periodically reconciled using supporting documentation.

Views of Responsible Officials and Planned Corrective Actions:

Due to the former Finance Director's actions, asset and liability accounts were rarely adjusted or reconciled to actual amounts. During the 2011-12 audit, almost every account was reviewed and analyzed. There may be additional adjustments during the 2012-13 financial statement preparation. The current Finance Director is performing periodic reconciliation of said accounts.

FINDING #2012-05

Criteria: Expenditures should be properly recorded in the general ledger.

Condition: Expenditure detail in the Town Hall general ledger indicates some invoices were entered as journal entries, rather than by entering invoices in the accounts payable function.

Context: General ledger detail lists journal entries as one of the methods used to record expenditures.

Effect: The financial records are not easily traceable to the related supporting documentation.

Cause: Past practice

Recommendation: Expenditures resulting from purchases from vendors should be recorded in the general ledger through the accounts payable system.

Views of Responsible Officials and Planned Corrective Actions:

The current General Ledger system has limitations and does not produce a listing of accounts payable at fiscal year-end. In order to accurately reflect accounts payable, journal entries had to be performed. Additionally, accounting office staff was not properly trained in how to track accounts payable for audit purposes. The current Finance Director has worked with the Assistant Finance Director to facilitate the processing of accounts payable for future audit periods.

FINDING #2012-06

Criteria: Expenditures should be recorded in the correct accounting period.

Condition: Outstanding Accounts Payable for the General, Water, and Sewer Funds was not correctly recorded at the end of the fiscal year

Context: Accounts payable listing was incomplete, and was based on date of payment, not the date of receipt of goods or services.

Effect: Accounts payable listing provided during the audit was found to be incomplete through audit testing.

Cause: Past practice

Recommendation: Accounts payable should be recorded in the correct period, using the receipt of goods and services as the primary indicator.

Views of Responsible Officials and Planned Corrective Actions:

The current Finance Director has worked with the Assistant Finance Director to facilitate the processing of accounts payable for future audit periods. Insufficient training was provided by the former Finance Director. Also, the importance of recording expenditures and related liabilities in the proper period was not conveyed to staff.

FINDING #2012-07

Criteria: Disbursements should have evidence of management approval.

Condition: Documentation supporting disbursements from the Student Activity Funds do not consistently show evidence of approval for payment.

Context: Student Activity Funds are maintained at the schools, outside of the centralized business office of the Board of Education. During audit testing, a majority of the documents (generally invoices or receipts) selected for review did not have evidence of management approval. Several of the disbursements selected for testing did not have supporting documentation.

Effect: Inconsistent evidence of management approval of documents prior to payment. Incomplete financial records supporting disbursements.

Cause: Past practice

Recommendation: All supporting documentation for disbursements should be retained and have evidence of management approval prior to payment. If payment requested does not have a vendor invoice, a check request form should be completed and approved.

Views of Responsible Officials and Planned Corrective Actions:

Business manager will work with administrators regarding proper approval of invoices and create a form to be used for check requests.

FINDING #2012-08

Criteria: Adequate controls should be maintained over revenues and disbursements from bank accounts.

Condition: A lack of segregation of duties exists over the School Cafeteria Fund and Student Activity Fund bank accounts.

Context: The accounting for the School Cafeteria Fund and Student Activity Funds is maintained outside of the centralized business office of the Board of Education.

Effect: There is a lack of adequate monitoring of the School Cafeteria Fund and Student Activity Fund bank accounts.

Cause: Past practice

Recommendation: Monthly bank reconciliations should be performed or reviewed by an employee of the Board of Education business office to provide adequate monitoring of account activity.

Views of Responsible Officials and Planned Corrective Actions:

Business manager will perform monthly bank reconciliation's for the cafeteria account.

FINDING #2012-09

Criteria: Internal Controls should be established over collection of revenues.

Condition: Tax collections recorded by the Tax office in the GEMS tax software are manually re-entered into the GEMS general ledger in the Finance office. The daily collections are remitted to the Former Finance Director for deposit.

Context: For a number of years, GEMS software has the ability to automatically post tax collections from the tax software directly to the general ledger, eliminating the ability for human manipulation of original receipts. The former Finance Director was responsible for preparing the bank deposits and maintaining the general ledger.

Effect: Tax collections were manipulated by the former Finance Director prior to deposit. Revenues from other departments were used to replace the cash removed from the tax collections. A manual spreadsheet was developed by the former Finance Director to show a reconciliation to the tax office's collections.

Cause: The former Finance Director did not enable the available software link between the tax and finance offices.

Recommendation: The software that links the tax office collections to the general ledger should be put in place immediately. The daily tax collections should be deposited intact by the tax office to eliminate the ability for deposits to be manipulated.

Views of Responsible Officials and Planned Corrective Actions:

The Accounting Office staff and the Purchasing/IT Director have been working diligently with the GEMS representatives to interface the tax office collections with the financial software. It is substantially complete and should be operational during the end of fiscal year 2013-14.

FINDING #2012-10

Criteria: Financial statement elements should be periodically reconciled and adjusted to realizable amounts.

Condition: Numerous interfund advances are reported in the financial statements and trial balances. Some have existed for longer than several years.

Context: Cash held in governmental funds has been transferred to the General Fund for cash flow purposes. Advances have been made to the Dog, Water and Sewer funds from the General Fund for cash flow purposes. The Highland Lake Sewer Assessment Fund is recording transfers to the Sewer Fund in excess of collections.

Effect: Assets, liabilities and equity of individual funds may be overstated or understated due to interfund advances that may not be repaid.

Cause: The cash requirements of Town operations, including Water and Sewer, have exceeded cash deposits.

Recommendation: Interfund advances should be evaluated as to their appropriateness and likelihood of repayment. A plan should be developed to address all advances intended to be repaid. Advances for which repayment is unlikely should be adjusted in the financial statements to avoid misstating financial position.

Views of Responsible Officials and Planned Corrective Actions:

Almost all interfund balances were evaluated and adjusted as necessary during the 2011-12 audit. Any additional changes will be reflected in the 2012-13 financial statements. A policy will be implemented to clear out interfund balances in a timely manner and for the long-term interfund obligations; a plan is currently being developed by the current Finance Director and the Town Manager for review by the Board of Selectmen.

FINDING #2012-11

Criteria: Transactions affecting the cash account should be reconciled to supporting data.

Condition: The General Fund general ledger cash account was increased each time payroll was processed for the School Cafeteria Fund.

Context: The Finance office is responsible for processing the payroll for all School Lunch employees other than the School Lunch Director. The School Lunch program reimburses the Town for all costs from its checking account.

Effect: General Fund cash was overstated due to an unreconciled debit for each payroll processed.

Cause: The General Fund checking account was not reconciled, which would have identified the posting error. The former Finance Director periodically made broad adjustments to several general ledger accounts, including the General Fund cash.

Recommendation: The payroll posting mapping in the general ledger software should be reviewed and corrected.

Views of Responsible Officials and Planned Corrective Actions:

It became apparent during the 2011-12 audit that there are some posting errors occurring during payroll processing of the School Lunch payroll. An analysis needs to be conducted between the automatic posting that occurs during the School Lunch bi-weekly payroll to correct errors to the cash account. As stated under finding 2012-1, the Treasurer has resumed his bank reconciliation duties.

FINDING #2012-12

Criteria: Tax collections should be reported in the correct fiscal year.

Condition: Certain tax collections in June were recorded in the general ledger cash account in July. Prepaid taxes and delinquent taxes are included in these collections.

Context: Numerous tax collections are processed and deposited near the end of the fiscal year. Some of the tax collections are received at the Town Hall, others are received by mail and electronic payment.

Effect: The bank account balance did not reconcile to the general ledger. Certain collections were recorded in the wrong fiscal year.

Cause: Bank reconciliations were not prepared on a timely basis. Tax collection reports from the Tax Office were not reconciled to general ledger postings. The software link between the Tax and Finance Offices was not implemented.

Recommendation: The software link between the Tax and Finance Offices should be implemented immediately. Bank reconciliations should be performed timely.

Views of Responsible Officials and Planned Corrective Actions:

As discussed in finding # 2012-9, the software link to post tax office collections automatically to the financial software will be operational during the latter part of fiscal year 2013-14. Also,

as discussed in finding # 2012-1, the Treasurer has resumed his bank reconciliation duties and prepares them in a timely manner.

FINDING #2011-06/2011-02

Criteria: The Town must comply with government regulations concerning payroll tax withholding and reporting.

Condition: The former Finance Director manipulated year-end payroll tax reporting forms to indicate higher tax withholdings than actually occurred.

Context: The Town identified that the former Finance Director changed his personal W-2 to reflect tax withholding amounts greater than the actual amounts withheld.

Effect: The Town paid excess amounts to the IRS that were credited to the former Finance Director's personal tax withholdings.

Cause: The year-end payroll reconciliation process was controlled by the former Finance Director. In addition, the former Finance Director issued a manual check from the general fund to make the additional tax withholding payment.

Recommendation: Payroll reconciliations should be performed by the payroll department. Manual checks should be limited to specific instances, and require additional levels of approval.

Views of Responsible Officials and Planned Corrective Actions:

The Assistant Finance Director currently performs payroll reconciliations in conjunction with the Treasurer. The W-2 processing for 2013 was verified by the Treasurer and the Purchasing/IT Director. General ledger system reports were compared to 941 reports and W-2's. Additionally, individual W-2's were spot checked for accuracy. The current Finance Director directed staff to no longer use manual checks. The manual checks have not been destroyed as of yet in case of emergency, but they are contained in a locked file cabinet. Since positive pay has been implemented with Bank of America, no check will be cleared by the bank if the electronic file supporting the check has not been submitted by the Town. This process further inhibits the use of manual checks.

FINDING #2011-03

Criteria: Internal controls over authorization of disbursements should be maintained.

Condition: While there are two signatures on the accounts payable checks, the signatures are system-generated and applied. During our audit, we noted that signatures of people not in Town Hall at the time checks were generated had been system-applied to checks.

Context: The individuals whose signatures are on the check are not consistently the ones approving the disbursements.

Effect: Checks signed by individuals who did not approve the disbursements.

Cause: Lack of adequate internal control.

Recommendation: We recommend that the Town develop adequate policies and procedures over cash disbursements. Checks should not be released without the approval and authority of those whose signature appear on the checks.

Views of Responsible Officials and Planned Corrective Actions:

The Finance Director and Treasurer review all weekly accounts payable check runs, by comparing the check to the supporting documentation and sign off for approval. Additionally, the Finance Director reviews and signs off on the weekly Town payroll for accuracy. Positive Pay was implemented through Bank of America in the fall of 2013. This process will provide a file to the bank for both accounts payable checks as well as payroll checks. If any checks come through the bank that do not completely match the file, they will be rejected temporarily and held until designated Town officials release the check or reject it. This will provide for protection against alteration of check amounts or Payee names as well as disallow any unapproved checks to be written and cashed.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING #2012-13

Criteria: Federal Single Audits are required to be submitted to the Federal Audit Clearinghouse within 9 months after year-end.

Condition: Federal Single Audits for 2010-11 and 2011-12 were not submitted in a timely fashion.

Context: Federal Single Audits are required to be uploaded to the Federal Audit Clearinghouse within 9 months after year-end.

Effect: Did not meet requirement to file Federal Single Audits within 9 months after year-end.

Cause: The audit of the financial statements was delayed due to fraud committed by the prior Finance Director.

Recommendation: We recommend that Federal Single Audits be submitted within 9 months after year-end.

Views of Responsible Officials and Planned Corrective Actions:

Due to the actions and alleged theft by the former Finance Director, the Town's financial statements and related single audits have been extremely delayed. It is the Town's intent to meet the deadline for filing the Federal Single Audit within 9 months of fiscal year end for fiscal year 2013-14.