

TOWN OF WINCHESTER, CONNECTICUT
State Single Audit
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June 30, 2013

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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, 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 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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated September 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Town'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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-01, 2011-05, 2012-01, 2012-02, 2013-02, and 2012-04 to be material weaknesses.

A significant deficiency is a deficiency, or 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, 2012-06, 2012-07, 2012-08, 2012-09, and 2012-11 to be significant deficiencies.

Compliance and Other Matters

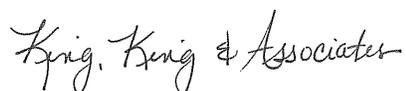
As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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 are described in the accompanying schedule of findings and questioned costs as item 2008-5.

The Town's Response to Findings

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

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**REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM; REPORT
ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
REQUIRED BY THE STATE SINGLE AUDIT ACT**

Independent Auditor's Report

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

Report on Compliance for Each Major State Program

We have audited the Town of Winchester, CT's (Town) compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of the Town's major state programs for the year ended June 30, 2013. The Town's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion for each of the Town's major state programs based on our audit of the types of compliance requirements referred to above. 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 the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act 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 on compliance for each major state program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major State Program

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 state programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the State Single Audit Act and which are described in the accompanying schedule of findings and questioned costs as items 2010-7 and 2013-1. Our opinion on each major state program is not modified with respect to those matters.

The Town's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, 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 material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over

compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We have issued our report thereon dated September 25, 2014, which contained qualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act, and is not a required part of the basic 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 basic 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 the basic financial statements or to the basic 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 state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

King, King & Associates

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

TOWN OF WINCHESTER, CONNECTICUT
Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2013

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
Department of Education		
School Readiness and Child Care in Competitive Grant Municipalities	11000-SDE64370-12113	\$ 197,000
Alliance District	11000-SDE64370-17041-82164	166,823
Healthy Foods Initiative	11000-SDE64370-16212-82010	9,978
Health Services	11000-SDE64370-17034	39,411
Child Nutrition Program - (School Lunch State Match)	11000-SDE64370-16211-82051	5,231
Family Resource Centers	11000-SDE64370-16110	105,212
Youth Services Bureau - Enhancement	11000-SDE64370-16201	4,888
Adult Education	11000-SDE64370-17030	21,709
School Readiness Quality Enhancement	11000-SDE64370-17097	4,380
School Breakfast	11000-SDE64370-17046	3,334
After School Program	11000-SDE64370-17084	93,565
Youth Services Bureau	11000-SDE64370-17052	<u>17,332</u>
Total Department of Education		668,863
Connecticut State Library		
Historic Documents Preservation Grants	12060-CSL66094-35150	4,000
Judicial Department		
Parking Fines	34001-JUD95162-40001	5,046
Department of Veterans Affairs		
Headstones	11000-DVA21134-16049	600

See notes to schedule.

TOWN OF WINCHESTER, CONNECTICUT
Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2013

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
Office of Policy and Management		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OPM20600-17004	80,595
Payment in Lieu of Taxes (PILOT) on Private Colleges and General/Chronic Disease Hospitals	11000-OPM20600-17006	40,099
Reimbursement of Property Taxes - Disability Exemption	11000-OPM20600-17011	1,216
Incentive Housing Zone	12060-OPM20600-90526	20,000
Payment in Lieu of Taxes (PILOT) on Exempt Property of Manufacturing Facilities in Distressed Municipalities	11000-OPM20600-17016	34,260
Small Town Economic Assistance Program	12052-OPM20870-40530	46,063
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	62,608
Property Tax Relief for Veterans	11000-OPM20600-17024	<u>2,458</u>
Total Office of Policy and Management		<u>287,299</u>
Department of Transportation		
Town Aid Road Grant	12001-DOT57131-43459	<u>151,334</u>
Department of Development Services		
Employment Opportunities & Day Services	11000-DDS50522-16108	<u>225,010</u>
Total State Financial Assistance Before Exempt Programs		1,342,152
EXEMPT PROGRAMS		
Office of Policy and Management		
Mashantucket Pequot and Mohegan Fund	12009-OPM20600-17005	67,445
Municipal Revenue Sharing	12060-OPM20600-35458	<u>336,777</u>
Total Office of Policy and Management		404,222
Department of Education		
Public School Transportation	11000-SDE64370-17027	77,893
Educational Cost Sharing	11000-SDE64370-17041	7,767,923
Charter Schools	11000-SDE64370-17041-84179	744,600
Excess Costs Student Based and Equity	11000-SDE64370-17047	1,121,745
Nonpublic School Transportation	11000-SDE64370-17049	<u>28,279</u>
Total Department of Education		<u>9,740,440</u>
Total Exempt Programs		10,144,662
Total State Financial Assistance		<u>\$ 11,486,814</u>

See notes to schedule.

**TOWN OF WINCHESTER, CONNECTICUT
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2013**

The accompanying schedule of expenditures of state financial assistance includes state grant activity of the Town of Winchester, CT under programs of the State of Connecticut for the fiscal year ended June 30, 2013. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including education programs, public safety programs, veterans' programs, and environmental programs.

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.

The information in the Schedule of Expenditures of State Financial Assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

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 State Financial Assistance are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, 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 Expenditure of State Financial Assistance.

2. LOAN PROGRAMS

In accordance with Section 4-236-23(a)(4)(F) of the Regulations to the State Single Audit Act, the notes to the Schedule of Expenditures of State Financial Assistance

shall include loans and loan activities. The following is a summary of the various loan program activity for the year ended June 30, 2013:

Department of Environmental Protection:

Clean Water Funds:

Issue Date	Interest Rate	Original Amount	Balance Beginning	Issued	Retired	Balance Ending
1/08	2%	\$ 642,019	\$ 488,057	\$ -	\$ 29,117	\$ 458,940

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TOWN OF WINCHESTER, CONNECTICUT SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

We audited the financial statements of the Town of Winchester, CT as of and for the year ended June 30, 2013 and issued our qualified report thereon dated September 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

State Financial Assistance

Internal control over major programs:

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

We have issued an unmodified opinion relating to compliance for major State programs.

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act?

Yes No

The following schedule reflects the major programs included in the audit:

State Grantor and Program	State Core - CT Number	Expenditures
Department of Education		
Alliance District	11000-SDE64370-17041-82164	\$ 166,823
Office of Policy and Management		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OPM20600-17004	\$ 80,595
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	\$ 62,608
Department of Transportation		
Town Aid Road Grant	12001-DOT57131-43459	\$ 151,334
Department of Developmental Services		
Employment Opportunities & Day Services	11000-DDS50522-16108	\$ 225,010
Dollar threshold used to distinguish between type A and type B programs		<u>\$ 200,000</u>

II. FINANCIAL STATEMENT FINDINGS

- We issued reports, dated September 25, 2014, on internal control over financial reporting and on compliance and other matters based on our audit of financial statements performed in accordance with *Government Auditing Standards*.
- Our report on compliance indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting indicated a Material weakness, as described below:

FINDING #2008-5

Criteria: The Town should maintain compliance with the annual adopted budget.

Condition: The Town has overexpended its budget in two departments during the fiscal year ended June 30, 2013.

Context: According to the Town's charter, Section 905, "No individual, office, department, board, commission or agency shall expend or contract, which by its terms involves the expenditures of money, for any purpose, in excess of the amounts appropriated therefore.

Effect: The town is not in compliance with local laws and regulations.

Cause: Error in considering the effect of a credit from the Regional Refuse District No. 1 and revaluation fees were greater than expected. Budget amendments were prepared and approved; however, correcting general ledger adjustments made after year-end in preparation for the audit resulted in additional variances.

Recommendation: We recommend that the Town monitor the budget in order to stay within the legally adopted budget amount. An electronic purchase order system would assist in preventing over-expending a budget line. If a budget overage occurs, the Board of Selectmen should take proper action to correct these departmental budget overages in accordance with Charter Sections 914, 915, and 916 (as limited by Section 305C). As the Town is better able to manage the general ledger on a timely basis, more accurate budget revisions should be possible.

Views of Responsible Officials and Planned Corrective Actions:

Beginning with fiscal year 2012-13 and forward, all budgetary revisions have been before the Board of Selectmen for approval. The implementation of procedures by the Finance Director in FY 2013-2014 over general ledger account reconciliations will provide more accurate and timely review of account balances such that proper budgetary revisions can be made on a timely basis.

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.

Context: Multiple years of bank reconciliations were performed by the accounting consultant in a relatively short period of time.

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 and were not performed.

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

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 will be expected to perform 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 was a lack of segregation of duties over deposits for part of the year. 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 a spreadsheet which contains the itemized listing of checks and currency as well as the accounts for posting. For those deposits that come with a 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 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 printout 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: More than 10 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. In addition, numerous fiscal years need to be formally closed in the software.

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 #2012-04

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 during the fiscal year.

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 on a timely basis. 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. Policies and procedures were developed and implemented in FY 2013-2014 under subsequent Finance Director

FINDING #2012-06

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

Condition: Outstanding Accounts Payable for the General Fund was not correctly recorded at the end of the fiscal year.

Context: Although an effort was made to include expenditures in the correct years, audit procedures identified several invoices in the incorrect year. Some of these were significant.

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

Cause: Unintentional errors.

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.

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.

Effect: Inconsistent evidence of management approval of documents prior to payment.

Cause: Past practice

Recommendation: All supporting documentation for disbursements should 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. This finding was reported to the BOE In February 2014. Therefore, corrections could not be implemented for this fiscal year or the better part of the 13-14 year.

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. This finding was reported to the BOE In February 2014. Therefore, corrections could not be implemented for this fiscal year or the better part of the 13-14 year.

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 now operational.

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 on a timely basis, 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. For FY 2103 and part of FY 2014 these posting errors were identified and corrected as part of the bank reconciliation process. Correction of the payroll interface was done in the latter part of FY 2014. Effective July 1, 2014 the Board of Education is responsible for processing the Lunch Program payroll.

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.

FINDING 2013-02

Criteria: Final year-end expenditures should be reported to the Board of Education in a reasonable amount of time.

Condition: The Board of Education is unable to provide a final year-end budget vs. actual expenditure report. The Board continues to make adjustments to year-end numbers for an extended period after the end of the fiscal year. Adjustments to the 12/13 fiscal year were pending as of August 4, 2014.

Context: Year-end expenditure reports presented to the Board initially contain actual and encumbered amounts.

Effect: The Board of Education is not timely informed of final year-end numbers. The amounts reported to Board included encumbered amounts that are subsequently adjusted after the reporting date. Final expenditure amounts are not the same as reported to the Board, as the Board begins receiving monthly reports relating to the subsequent fiscal year and does not receive adjusted reports relating to the prior year.

Cause: Year-end expenditure reports included encumbered amounts as allowed by the accounting policies; however, encumbrances initially recorded at year-end are subsequently adjusted as vendor invoices are received.

Recommendation: Standard encumbrance accounting should be implemented, whereby encumbrances for unfilled orders for goods and services are recorded within a reasonable period after year-end. The encumbered amounts are used to prepare final year-end expenditure reports for public use. The reports should be available by July 31. Any unused encumbrances are returned to the General Fund in the subsequent year as encumbrance credits. Encumbrances should be liquidated through actual expenditure or credits within a reasonable period after year-end, no longer than six months.

Views of Responsible Officials and Planned Corrective Actions: During fiscal year 12-13, the BOE was unable to pay bills in a timely manner due to the Town's cash flow problems. As a result, the final BOE bills were not paid until January 2014. For fiscal year 13-14, the BOE closed its books in mid-August and issued a final end of year report for June 30, 2014 at the September 2014 BOE meeting.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

Finding # 2010-07

Grantor: State of Connecticut Department of Development Services

Program: Employment Opportunities and Day Services

Core-CT Number: 11000-DDS50522-16108

Criteria: Cost Allocation Plans should meet the requirements of OPM Cost Standards.

Condition: While a Cost Allocation Plan was developed, it did not meet the OPM Cost Standards. The Cost Allocation Plan should identify costs as direct, allocable as direct, or indirect, and the methods in which the costs are charged to the grant program.

Questioned Costs: No questioned costs

Context: The program is administered by the Senior Center Director, outside of the Finance Office.

Effect: Has not been determined

Cause: The senior Center Director did not receive guidance on the necessary components of the plan.

Recommendation: We recommend that the cost allocation plan be revised to comply with OPM Cost Standards.

Views of Responsible Officials and Planned Corrective Actions:

The program coordinator of the Employment Opportunities and Day Services program worked with audit staff to comply with OPM Cost Standards for fiscal year 2013-14. The Plan is drafted and needs to be approved by the Selectman.

Finding # 2013-01

Grantor: State of Connecticut Department of Education

Program: Alliance District

Core-CT Number: 11000-SDE64370-17041-82164

Criteria: Form ED141 (Statement of Expenditures) must be submitted by September 1 following the end of the program year.

Condition: While a Form ED141 was submitted, the expenditures reported did not agree Alliance District included in the Board of Education Grant Fund. We noted the same condition also applied to two federal grants.

Questioned Costs: No questioned costs

Context: Alliance District grant funds are recorded in the Board of Education Grant Fund. Financial reports from this fund are used to prepare ED141 filings. Adjustments are made to the Board of Education general ledger for extended periods after the end of the fiscal year.

Effect: Alliance District grant expenditures were underreported to the State of Connecticut.

Cause: Adjusting entries were made to the Alliance District grant expenditure line items after submission of the ED141.

Recommendation: We recommend that the Board of Education grant expense reports be finalized in a reasonable period of time after year-end in order to report accurate numbers on the ED141.

Views of Responsible Officials and Planned Corrective Actions: Confirmation for the Alliance grant was not received until the fall of 2012, several months after the start of the fiscal year. Staffing and positions were revised several months later, in collaboration with the state alliance coordinator. Staff that was hired and assigned to the general fund initially should have been covered by the alliance grant. Adjusting entries were then made to reclassify these expenditures. Year two of the Alliance grant (13-14 year) has followed the normal pattern of approval and funding associated with grants. For the 13-14 year grant expenditures were finalized in a reasonable period of time after year-end.