

TOWN OF WINCHESTER, CONNECTICUT
Federal Single Audit
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June 30, 2014

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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 the aggregate remaining fund information of the Town of Winchester, CT (Town), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our qualified report thereon dated April 23, 2015.

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 2011-05 and 2014-01 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 2012-07, 2012-08, and 2014-03 to be significant deficiencies.

Compliance and Other Matters

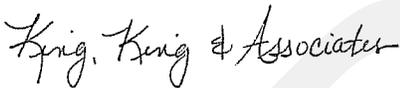
As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
April 23, 2015

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

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, 2014. The Town's major federal programs are identified in the summary of auditor's 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 federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal 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 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 federal 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 federal program. However, our audit does not provide a legal determination of the Town's compliance

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-13, 2014-04, and 2014-05. Our opinion on each major federal program is not modified with respect to these matters.

The Town's response to the noncompliance 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 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 federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 federal 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 federal 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon dated April 23, 2015 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 federal awards is presented for purposes

of additional analysis as required by OMB Circular A-133 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 federal awards 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
April 23, 2015

TOWN OF WINCHESTER, CONNECTICUT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

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	\$ 58,136
National School Lunch Program	10.555	<u>280,274</u>
		<u>\$ 338,410</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	84.010	<u>253,108</u>
		253,108
Special Education Cluster:		
Special Education - Preschool Grants	84.173	15,453
Special Education - Grants to States	84.027	<u>271,009</u>
		286,462
Improving Teacher Quality State Grants	84.367	<u>59,392</u>
		<u>598,962</u>
Total United States Department of Education		
		598,962
United States Department of Homeland Security		
<i>Passed Through the State of Connecticut Department of Public Safety</i>		
Disaster Grants-Public Assistance	97.036	57,368
Homeland Security Grant Program	97.067	1,128
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	145,933
United States Department of Justice		
<i>Passed Through the State of Connecticut Department of Public Safety</i>		
Edward Byrne Memorial Justice Assistance Grant, Recovery Act	16.804	34,582
United States Department of Transportation		
<i>Passed Through the State of Connecticut Department of Transportation:</i>		
Highway Planning and Construction	20.205	<u>469,707</u>
United States Environmental Protection Agency		
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	<u>170,648</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,347,031</u></u>

See notes to schedule.

**TOWN OF WINCHESTER, CONNECTICUT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014. Various departments and agencies of the Federal Government have provided financial assistance 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 \$43,562 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, 2014

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, 2014 and issued our qualified report thereon dated April 23, 2015.

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 an 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

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

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
Department of Agriculture 10.553/10.555	Child Nutrition Cluster
United States Department of Homeland Security 14.228	Small Cities Program
United States Department of Justice 16.804	Edward Byrne Memorial Justice Assistance Grant, Recovery Act

- Dollar threshold used to distinguish between type A and type B programs \$ 300,000
- Auditee qualified as low-risk auditee? Yes No

II. FINANCIAL STATEMENT FINDINGS

- We issued reports, dated April 23, 2015, 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 a reported instance of noncompliance.
- Our report on internal control over financial reporting indicated material weaknesses, as described below:

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 had been temporarily modified to allow journal entries in prior years that did not balance (debits did not equal credits). This finding has been modified from prior years as controls have been reinstated.

Effect: Inaccurate financial reporting. Out-of-balance general journal transactions were posted in prior years, resulting in trial balances whose debits do not equal the credits. Town personnel must create supplemental statements for reporting purposes.

Cause: The former Finance Director requested the ability to record one-sided journal entries from the software provider. Prior fiscal years also need to be formally closed in the software. In addition, the chart of accounts for some funds were not set up with proper account designations or control accounts which caused out of balance situations as the software was unable to process transactions to which it could not relate an appropriate general ledger account

Recommendation: Fund trial balances should be in balance.

Views of Responsible Officials and Planned Corrective Actions:

The Finance Director has instituted a plan to address out of balance Fund trial balances. Each out of balance fund will be reviewed on a fund by fund basis and the issues addressed with software provider personnel. Some of the funds will balance when proper account designations are created, updated or revised. Formal closing procedures may also need to be done. Funds which will not be able to be balanced from these procedures may require one sided entries to Fund Balance. In such case, the entries will be sent to the software provider for posting.

FINDING #2014-01

Criteria: Adequate controls should be developed for the financial activity of the School Cafeteria Fund

Condition: The School Cafeteria Funds general ledger did not contain all of the activity for the 2014 fiscal year and bank reconciliations were not completed.

Context: Management has identified irregularities in the School Cafeteria Fund and our audit procedures have indicated that some cash collections were not deposited into the cafeteria bank account. The CT Department of Education is also currently performing a review of the nutrition grant submissions from the District.

Effect: Inaccurate financial reporting and potential misappropriation of funds.

Cause: Lack of adequate monitoring of the school cafeteria as referenced in finding #2012-08.

Recommendation: The Cafeteria is currently decentralized from the Board of Education's accounting system. We recommend that the Cafeteria's accounting responsibilities are transferred to the Board of Education, or at a minimum, the bank reconciliations, invoices, and deposits of lunch receipts be reviewed by a separate individual.

Views of Responsible Officials and Planned Corrective Actions:

- Our report on internal control over financial reporting indicated significant deficiencies as described below:

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:

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:

FINDING #2014-03

Criteria: Grant expenditures should be reconciled on a timely basis.

Condition: Procedures are not in place to ensure that grants are properly closed out in the general ledger.

Context: The BOE Grants Fund contains multiple years of grants receivables and payables due the state. In addition, there are non-grant expenditures that were not reconciled to the District budget.

Effect: Outstanding items that should have been reconciled and closed out still remain in the fund.

Cause: Past practice

Recommendation: We recommend that the BOE reconcile all outstanding grants and establish procedures whereby grant expenditures and receipts are reconciled on a timely basis.

Views of Responsible Officials and Planned Corrective Actions:

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING #2012-13

Grantor: Department of Agriculture passed through CT Department of Education.

Program: School Breakfast Program
CFDA Number: 10.553

Program: National School Lunch Program
CFDA Number: 10.555

Grantor: United State Department of Justice passed through the CT Department of Public Safety.

Program: Edward Byrne Memorial Justice Assistance Grant, Recovery Act
CFDA Number: 16.804

Grantor: Department of Transportation passed through CT Department of Transportation.

Program: Highway Planning and Construction
CFDA Number: 20.205

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 2011-12, 2012-13, and 2013-14 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 audits of the financial statements were 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:

FINDING #2014-04

Grantor: Department of Agriculture passed through CT Department of Education.

Program: School Breakfast Program
CFDA Number: 10.553

Program: National School Lunch Program
CFDA Number: 10.555

Criteria: All revenues and expenditures of a non-profit school food service must be accounted for and all revenues generated by the school food service must be used to operate and improve its food services.

Condition: Audit procedures indicate that some cash collections were not deposited to the School Cafeteria account.

Context: Management has identified irregularities in the School Cafeteria Fund and our audit procedures have indicated that some cash collections were not deposited into the cafeteria bank account. Also see finding 2014-01.

Effect: Did not comply with certain Special Tests and Provisions included in the Compliance Supplement.

Cause: There is a lack of adequate monitoring of the School Cafeteria Fund.

Recommendation: The Cafeteria is currently decentralized from the Board of Education's accounting system. We recommend that the Cafeteria's accounting responsibilities are transferred to the Board of Education, or at a minimum, the bank reconciliations, invoices, and deposits of lunch receipts be reviewed by a separate individual.

Views of Responsible Officials and Planned Corrective Actions:

FINDING #2014-05

Grantor: Department of Agriculture passed through CT Department of Education.

Program: School Breakfast Program
CFDA Number: 10.553

Program: National School Lunch Program
CFDA Number: 10.555

Criteria: A sample of 3% of approved applications must be selected by Board of Education staff to verify eligibility for free and reduced lunches each year by November 15th.

Condition: There is no evidence available to show that any households were selected and tested for the 2014 fiscal year.

Context: The Cafeteria has experienced turnover in staff. The current staff cannot locate the records of the eligibility testing.

Effect: Did not comply with certain Special Tests and Provisions included in the Compliance Supplement.

Cause: There is a lack of adequate monitoring of the School Cafeteria Fund

Recommendation: We recommend that management reviews and approves all requirements of grant programs.

Views of Responsible Officials and Planned Corrective Actions:

DRAFT