

TOWN OF WINCHESTER, CONNECTICUT
State 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

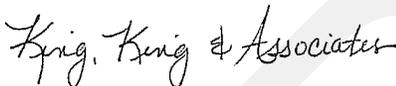
As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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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Telephone: (860) 379-0215

Fax: (860) 738-7555

www.kingcpas.com

**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, 2014. 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, 2014.

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 2013-01. Our opinion on each major state program is not modified with respect to these 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of finding and questioned costs as item 2014-02 that we consider to be significant deficiencies.

The Town's response to the internal control over compliance finding(s) identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's responses was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We have issued our report thereon dated April 23, 2015, which contained a qualified opinion on the Cafeteria Fund on those financial statements. In our opinion except for the effect on the accompanying schedule of state financial assistance of the qualified opinion on the financial statements as described above, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the financial statements as a whole. 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
April 23, 2015

TOWN OF WINCHESTER, CONNECTICUT
Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2014

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	\$ 225,440
Alliance District	11000-SDE64370-17041-82164	211,837
Healthy Foods Initiative	11000-SDE64370-16212-82010	10,134
Health Services	11000-SDE64370-17034	29,621
Child Nutrition Program - (School Lunch State Match)	11000-SDE64370-16211-82051	5,771
Family Resource Centers	11000-SDE64370-16110	98,431
Youth Services Bureau - Enhancement	11000-SDE64370-16201	4,937
Adult Education	11000-SDE64370-17030	11,564
School Readiness Quality Enhancement	11000-SDE64370-17097	4,331
School Breakfast	11000-SDE64370-17046	19,956
After School Program	11000-SDE64370-17084	129,565
Youth Services Bureau	11000-SDE64370-17052	17,389
High Quality Schools Start Up	12052-SDE64370-43538	186,896
Connecticut K-3 Literacy Initiative Expansion	11000-SDE64220-12551	<u>30,748</u>
Total Department of Education		<u>986,620</u>
Connecticut State Library		
Historic Documents Preservation Grants	12060-CSL66094-35150	<u>4,000</u>
Judicial Department		
Parking Fines	34001-JUD95162-40001	<u>2,416</u>
Office of Policy and Management		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OPM20600-17004	75,292
Payment in Lieu of Taxes (PILOT) on Private Colleges and General/Chronic Disease Hospitals	11000-OPM20600-17006	36,009
Reimbursement of Property Taxes - Disability Exemption	11000-OPM20600-17011	\$ 1,280

See notes to schedule.

TOWN OF WINCHESTER, CONNECTICUT
Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2014

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
Office of Policy and Management (continued)		
Payment in Lieu of Taxes (PILOT) on Exempt Property of Manufacturing Facilities in Distressed Municipalities	11000-OPM20600-17016	\$ 12,601
Small Town Economic Assistance Program	12052-OPM20870-40530	78,937
Local Capital Improvement Program	12050-OPM20600-40254	117,728
Municipal Grants-in-aid	12052-OPM20600-43587	287,984
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	64,283
Property Tax Relief for Veterans	11000-OPM20600-17024	<u>2,644</u>
Total Office of Policy and Management		<u>676,758</u>
Department of Energy and Environmental Protection		
Clean Water Fund	21016-OTT14230-42407	<u>1,317</u>
Department of Emergency Services and Public Protection		
School Security Competitive Grant Program	12052-DPS32183-43546	<u>4,625</u>
Department of Transportation		
Town Aid Road Grant	12001-DOT57131-43459	<u>302,245</u>
Department of Development Services		
Employment Opportunities & Day Services	11000-DDS50522-16108	<u>250,685</u>
Total State Financial Assistance Before Exempt Programs		2,228,666
EXEMPT PROGRAMS		
Office of Policy and Management		
Mashantucket Pequot and Mohegan Fund	12009-OPM20600-17005	68,704
Department of Education		
Public School Transportation	11000-SDE64370-17027	78,577
Educational Cost Sharing	11000-SDE64370-17041	7,785,752
Charter Schools	11000-SDE64370-17041-84179	871,500
Excess Costs Student Based and Equity	11000-SDE64370-17047	1,011,220
Nonpublic School Transportation	11000-SDE64370-17049	<u>23,486</u>
Total Department of Education		<u>9,770,535</u>
Total Exempt Programs		9,839,239
Total State Financial Assistance		\$ <u>12,067,905</u>

See notes to schedule.

**TOWN OF WINCHESTER, CONNECTICUT
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014. 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, 2014:

Department of Environmental Protection:

Clean Water Funds:

<u>Date</u>	<u>Rate</u>	<u>Amount</u>	<u>Beginning</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending</u>
1/08	2%	\$ 642,019	\$ 458,940	\$ -	\$ 29,704	\$ 429,236

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TOWN OF WINCHESTER, CONNECTICUT SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

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, 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

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		
School Readiness and Child Care in Competitive Grant Municipalities	11000-SDE64370-12113	\$ 225,440
Alliance District	11000-SDE64370-17041-82164	\$ 211,837
High Quality Schools StartUp	11000-SDE64220-12551	\$ 186,896
Office of Policy and Management		
Municipal Grants-In-Aid	12052-OPM20600-43587	\$ 287,984
Department of Developmental Services		
Employment Opportunities & Day Services	11000-DDS50522-16108	\$ 250,685
Dollar threshold used to distinguish between type A and type B programs		<u>\$ 200,000</u>

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 no reportable instances 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. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

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 to the Alliance District expenditures as reported in the Board of Education Grant Fund general ledger. We noted the same condition also applied to multiple federal grants.

Questioned Costs: No questioned costs

Context: Alliance District grant funds are recorded in the general ledger of the Board of Education Grant Fund. Financial reports from this fund are used to prepare ED141 filings.

Effect: Alliance District grant expenditures were over reported 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:

FINDING #2014-02

Grantor: State of Connecticut Department of Education

Program: Multiple Grants

Criteria: Adequate controls should be maintained over grant reporting.

Condition: The controls currently in place do not detect discrepancies between amounts expended and amounts that are reported to grantors.

Context: Expenses reported on the ED141's do not match the underlying accounts records. This is more than an isolated occurrence. A specific example of noncompliance that could occur is included in finding #2013-01.

Effect: Improper reporting of grant funds.

Cause: A review of grant expenditures reported to the CT State Department of Education is not performed by management.

Recommendation: We recommend that all expenditures reported to grantors be reconciled to the general ledger and approved by management before submission.

Views of Responsible Officials and Planned Corrective Actions: