

Town of New Canaan, Connecticut

Internal Control and Compliance Reports
June 30, 2015

Town of New Canaan, Connecticut

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Year Ended June 30, 2015

Internal Controls and Compliance Reports

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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 Auditors' Report

**The Town Council
Town of New Canaan, Connecticut**

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 New Canaan, Connecticut ("Town") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 21, 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 opinions 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 the internal control over financial reporting 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 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 (identified as MW-2015-01 and MW-2015-02) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items (identified as SD-2015-01 and SD-2015-02) to be significant deficiencies.

Town's Response to Findings

The Town's response to the 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 the financial statements and, accordingly, we express no opinion on it.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town in a separate letter.

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 purposes.

O'Connor Davies, LLP

December 21, 2015

Town of New Canaan, Connecticut

State Single Audit
June 30, 2015

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 Auditors' Report

**The Town Council
Town of New Canaan, Connecticut**

Report on Compliance for Each Major State Program

We have audited the Town of New Canaan, Connecticut'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, 2015. 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance 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, 2015.

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 SSA-NC-2015-01. Our opinion on each major state 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items SSA-MW-2015-01 to be material weaknesses.

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.

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 response was not subjected 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, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We have issued our report thereon dated December 21, 2015, which contained unmodified 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 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 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 taken as a whole.

O'Connor Davies, LLP

December 21, 2015

Town of New Canaan, Connecticut

Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2015

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Expenditures
Connecticut State Library		
Historic Documents Preservation Grants	12060-CSL66094-35150	\$ 5,000
Department of Energy and Environmental Protection		
Small Town Economic Assistance Program (DEP)	12052-DEP43153-40531	83,681
Department of Transportation		
Transit District Grants and Loans Transportation Fund - Bus Operations	12001-DOT57931-12175	25,399
Town Aid Road Grants Transportation Fund	13033-DOT57131-43455	330,869
Capital Resurfacing - Related Improvements	13033-DOT57331-42350	12,675
Department of Emergency Services and Public Protection		
Drug Asset Forfeiture Revenue Account DPS	12060-DPS32155-35142	135
Enhanced 911 Telecommunication Fund	12060-DPS32181-35190	1,975
Department of Housing		
Main Street Investment Fund	12052-DOH46930-43524	12,421
Department of Justice		
Non-Budgeted Operating Appropriation	34001-JUD95162-40001	27,676
Office of Policy and Management		
Reimbursement to Towns - Tax Loss on State Owned Property	11000-OPM20600-17004	47,151
Reimbursement of Property Tax - Disability Exemption	11000-OPM20600-17011	159
Property Tax Relief for Elderly Circuit Breaker	11000-OPM20600-17018	26,211
Property Tax Relief for Veterans	11000-OPM20600-17024	1,380
Local Capital Improvement Program (LOCIP)	12050-OPM20600-40254	375,109
Municipal Purposes and Projects	12050-OPM20600-43587	188
Office of State Treasurer		
Nitrogen Credit Exchange Program	21016-OTT14230-42407	81,906
Office of Early Childhood		
Child Care Services	11000-OEC64841-12520	185,852
Department of Education		
Youth Services Bureau Enhancement	11000-SDE64370-16201	6,172
Adult Education	11000-SDE64370-17030	25
Health and Welfare - Private School Pupil	11000-SDE64370-17034	17,478
Youth Services Bureaus	11000-SDE64370-17052	14,418
		<u>1,255,880</u>
EXEMPT PROGRAMS		
Department of Education		
Education Cost Sharing	11000-SDE64370-17041	1,542,884
Public School Transportation	11000-SDE64370-17027	287
Special Education - Excess Cost - Student Based	11000-SDE64370-17047	664,357
School Construction Grants	13009-SDE64370-40896	14,907
School Construction Grants	13009-SDE64370-40901	254,330
Office of Policy and Management		
Mashantucket Pequot and Mohegan Fund Grant	12009-OPM20600-17005	5,293
Total exempt programs		<u>2,482,058</u>
Total State Financial Assistance		<u>\$ 3,737,938</u>

The accompanying notes are an integral part of this schedule

Town of New Canaan, Connecticut

Notes to Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2015

1. Summary of Significant Accounting Policies

General

The accompanying Schedule of Expenditures of State Financial Assistance includes state grant activity of the Town of New Canaan, Connecticut ("Town") under programs of the State of Connecticut for the fiscal year ended June 30, 2015. 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.

The accounting policies of the Town 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 on regulations established by the State of Connecticut, Office of Policy and Management.

Basis of Accounting

The financial statements for the governmental fund types contained in the Town's basic financial statements are prepared on the modified accrual basis of accounting. The government-wide financial statements and the financial statements for the business-type activities are prepared on the full accrual basis of accounting,

- Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period,
- Expenditures are generally recorded when a liability is incurred except for debt service expenditures, as well as certain other expenditures, when applicable, related to compensated absences, pension obligations, landfill closure costs, claims and judgments, and other post-employment benefits which are recorded only when payment is due (matured).

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 of 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 Expenditures of State Financial Assistance.

Town of New Canaan, Connecticut

Notes to Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2015

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, 2015:

Department of Environmental Protection:

Clean Water Funds 21016-OTT14230-42407:

	Issue Date	Interest Rate	Original Amount	Beginning Balance	Retired	Ending Balance
185-D/C	5/31/2000	2%	\$12,440,686	\$3,500,793	\$ (684,434)	\$ 2,816,359

3. Pass-through to Subrecipients

The Town is a pass-through entity for the Child Care Services Grant from the Office of Early Childhood Core-CT number 11000-OEC64841-12520. \$185,852 was passed through to a subrecipient.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section 1 - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued unmodified

Internal control over financial reporting

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? X yes none reported
- Noncompliance material to financial statements noted yes X no

State Financial Assistance

Internal control over major programs

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Type of report issued on compliance for major programs: unmodified

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?

X yes No

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

State Grantor and Program	State Core-CT Number	Expenditures
Department of Transportation		
Town Aid Road Grants Transportation Fund	13033-DOT57131-43455	\$330,869
Office of Policy and Management		
Local Capital Improvement Program (LOCIP)	12050-OPM20600-40254	375,109
Office of Early Childhood		
Child Care Services	11000-OEC64841-12520	185,852

Dollar threshold used to distinguish between type A and type B programs:

\$200,000

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section II - Financial Statement Findings

MATERIAL WEAKNESSES IN THE FINANCIAL AUDIT

MW-2015-01 – TIMELY AND ACCURATE FINANCIAL REPORTING

Criteria – Regular analysis and reconciliations of all balance sheet and other key accounts help ensure accurate and timely financial reporting. This is required to assist management in making appropriate decisions and is essential for internal control.

Condition – During our audit, we noted that the Town does not maintain month-end or year-end closing schedules to support the balance sheet accounts and other key accounts. (This has been noted as a weakness for the previous 3 years.) These key accounts include reconciling the Board of Education's expenditures and balance sheet accounts (a subset of the general government's activity) to the general government's general ledger. (The reconciliation between the Board of Education and the general government's general ledger has been noted as a weakness for the previous 3 years.)

Effect – Management did not have adequate financial reporting to make decisions and comply with budgeting rules and regulations in the Town's charter. The financial reports that were being produced were materially misstated. The Town's internal controls were greatly compromised.

Context - When comparing the first "final" trial balance provided by the Town to the figures in the audit: cash accounts were misstated by a net amount of \$3,668,875, other assets by \$882,357, liabilities by \$4,378,636, equity by \$1,656,225, revenues by \$561,804 and expenditures by \$4,947,125. The significant areas misstated were balancing with the Board of Education, balancing with the Tax Collector and balancing internal transactions with other funds.

Cause – The regular analysis and reconciliations of all balance sheet and other key accounts was not assigned to anyone in the Town finance office. There were no appropriate monthly or annual closing checklists and timelines nor were there an appropriate internal financial review of the financial reports.

Recommendation – Written financial reporting procedures must be developed. A checklist of monthly and annual closing procedures must be prepared and deadlines set. Finally, this must be monitored internally to assure timely and accurate financial reporting.

Views of Responsible Officials and Planned Corrective Actions – The FY 2015 reconciliation between the Town and Board of Education for the Board's expenditures merited extensive analytical review at year-end to ensure the FY 2014 year-end accruals were correctly stated and reversed, and that the FY 2015 transactions were recorded accurately. While the Town and Board of Education had reviewed expenditures on a monthly basis from July 2014 through April 2015, the reconciliation between the expenditures and corresponding balance sheet accounts occurred after the end of the fiscal year.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

MW-2015-01 – TIMELY AND ACCURATE FINANCIAL REPORTING (Continued)

While time-consuming, this process enabled the Town and Board of Education to liquidate approximately \$1.1M in prior year accruals and \$500k in current year encumbrances and accruals. As a result, the Town was able to increase the undesignated fund balance by this amount. Since this analytical review was fluid throughout the process for both the Town and Board of Education, we recognize that it would have been prudent to have delayed the audit until the completion of the final reconciliation. A majority of the differences noted by the audit are directly related to the Town's decision to delay recording of the FY 2015 year-end accrual for the Board of Education's salaries until the auditor's review of the transactions. This decision was not related to a lack of internal controls. Rather, it was based on the emerging fact that there was an adjusting entry in FY 2015 related to the FY 2014 year-end accrual and subsequent reversal, which prompted the need for a closer review of the same transactions for FY 2015 year-end.

Moving forward, the Town and Board of Education will strengthen the month and year-end reconciliation by instituting procedures to reconcile expenditures to the appropriate balance sheet accounts by jointly establishing and implementing a month and year-end reconciliation schedule and checklist at the beginning of each year. The staff responsible for this reconciliation will issue a month and year-end reconciliation report that clearly compares the expenditure balances on the Board of Education's ledger to the corresponding balance sheet accounts on the Town's trial balance. This process will ensure the timely reconciliation of the Board of Education's expenditures to the Town's Balance Sheet and the accuracy of the financial reports used to make decisions.

While the FY 2015 year-end close was extended beyond the original schedule and there were several adjusting journal entries required to properly reflect the financial transactions on both the Town and Board of Education's trial balances, we believe that this effort was necessary to ensure the accuracy of the Financial Statements of the Town of New Canaan.

The finance department is working toward improving month end close and reconciliation for all accounts with the implementation of the new financial system. The Town post payments upon receipt from the Tax Collector's department. There were a few adjustments that were held until the end of the fiscal year and reviewed between the collector's office and finance office. All adjustments going forward will be reviewed upon receipt by the finance department and posted appropriately.

The Finance Department went through an extensive review of all accounts while implementing their new Financial Software system, MUNIS, and creating a completely new chart of accounts that complies with the unified chart of accounts (UCOA) at the state. Clean up of accounts will continue.

It is noted by the Auditors in MW-2015-01 five (5) distinct times that solely the Town's Finance department is a resulting cause for their finding. While the Town's Finance department takes full responsibility for their actions the message needs clarification for the reader.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

MW-2015-01 – TIMELY AND ACCURATE FINANCIAL REPORTING (Continued)

In the past three and a half years the Town's Finance Department has had to continually adjust to three (3) Complete administration/finance turnovers within the Board of Education. We are adjusting to our third Superintendent, our third Director of Finance and Operations, our fourth Budget Director and our third Payroll Administrator. Contrary to what the Auditors note, the Town's Finance office does have procedures and processes in place to record the detail received by the Board of Education on the Town's books and with appropriate review, however, these process and procedures have been strained each time there has been turn over. Further strain was added while as the Board of Education brought their payroll in-house with a "go live" date of May 2015.

As noted above in our joint response, the Town's Finance department has complete confidence with the current administration and finance personnel in place at the Board of Education to be able to move forward with timely and accurate posting and review of all balance sheet accounts as well as the expenditures necessary to ensure accurate financial reports are produced and distributed.

In addition to the above turnover stated, the Town's Finance Department has been understaffed causing further impediments on the ability for the staff to complete all the required work timely. The Town's Finance Department during the fiscal year 2014-2015 in addition to our other constraints implemented a new Town accounting system with a "go live" date of July 1, 2015.

MW-2015-02 – INTEGRATED CONTROLS OVER TAX COLLECTION PROCEDURES

Criteria – Tax Collections represents a significant cycle of transactions within the Town which account for over 90% of the Town General Fund's \$140 million budget. Although the Town enjoys the highest tax collection rate in the state, proper policies and procedures need to be in place surrounding tax collections in all departments that are involved.

Condition – A common and efficient control is a segregation of duties. This requires that the custody of assets (such as the collection of payments) be done by a separate individual than the recordkeeping of the transaction (such as posting the payments and calculating the balances). And a third individual should be authorizing transactions (such as adjustments to taxes and tax payments). When this is not possible or not practical, other controls must be put in place. Because these are controls over the tax collection office, they should be developed outside of, but in conjunction with, the tax collection office. Putting these controls in place would generally be the responsibility of the Town Finance Department and would be approved by the Town Council and the Audit Committee.

Currently the Tax Collector has established certain policies and procedures and, because of the size of the office, the duties they must perform and that each employee in the office reports to the Tax Collector, a segregation of duties is not possible or practical. No additional controls have been put in place by the Town Finance Department. (This has been noted as a weakness for the previous 3 years.)

Effect – Although there were no irregularities within the Tax Collector's department noted during the audit, material errors or irregularities could occur and not be identified by management in a timely fashion.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

MW-2015-02 – INTEGRATED CONTROLS OVER TAX COLLECTION PROCEDURES (Cont.)

Cause – The Town Finance Department has not appropriately assessed risk and mitigated those risks with appropriately designed policies and procedures.

Recommendation – The Town Finance Department should understand the processes and risks associated with the current system and design policies and procedures to mitigate the risks.

Views of Responsible Officials and Planned Corrective Actions – Segregation does take place in that no single employee sees any of the steps related to the acceptance of cash all the way. Staffing levels are appropriate for an office of its size.

The Town's Finance Department works with the Tax collector who is a certified professional in her field with the experience and knowledge necessary on the implementation of required processes and procedures to establish internal controls that mitigate risks. Both the Finance Director and the Tax collector benchmark with other municipalities and professional organizations for best practices on risk prevention and control. Further review is taking place with the Tax Collector to design procedures to accommodate as much of the audit recommendations/concerns as possible.

The Auditors mention solely the Town's Finance Department five (5) distinct times within the MW-2015-02 weakness. While the Town's Finance Department takes sole responsibility for their actions, it is important to note that The Town's Finance Department hired O'Connor and Davies to help them with their Tax Collection reconciliation process in 2013. The Finance Department will continue to improve the posting of the tax collection reconciliation with the Grand Rate Book (GRB) and the impress account in order to strengthen procedures and minimize any weaknesses in internal controls.

In management's opinion the 3 individuals provide the Town with the required checks and balances. There is a "sign off" at every level thus allowing instant identification of the individual involved should an issue develop. The only other option would be to hire another individual in the Tax collector's office who's responsibility is specifically collection of funds and over seen by one of the other Tax Collectors' senior staff, taking the Tax Collector out of the approval process completely.

The Tax Collector must and does follow state statutes on court stips when processing a transfer. All proper paperwork and backup is attached to all transactions. Delinquent statements are sent out timely. Postage is reviewed for normal delinquent statements and amounts. All resident accounts are on the web site and accessible for anyone to review at any time.

The tax collector's Zero Balance Account (ZBA) bank account is reviewed and coded for each batch. Finance reviews all batches listed against the posted batch report monthly and reconciles that all batches are posted accurately on the town's general ledger. The tax collector's ZBA has a daily automatic sweep into the Pooled Cash account on the Town's general ledger. The Town's accounting manual is going through a complete review and update.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

SIGNIFICANT DEFICIENCIES IN THE FINANCIAL AUDIT

SD-2015-01 CAFETERIA REVENUES

Criteria – A point of sale system collects financial data and creates a sales journal and cash receipts journal. (A) These journals are posted to the trial balance to create the basis for financial reporting; And (B) if the point of sale system is used appropriately, it can also assist with a well-documented audit trail.

Condition – (A) The cafeteria uses a point of sale system to record student lunches and student payments. The Board of Education Finance Office does not use any information from the cafeteria accounting system to post the trial balance. The Board of Education Finance Office posts the cafeteria revenue directly from the deposits reported on the bank statements.

(B) In addition, the controls from the point of sale system are not maximized to create appropriate internal controls. Employee A balances the cash and checks to the transaction receipt (like a “z tape” from a cash register) and the electronic payment records (postings to the children’s accounts) daily. This procedure and the explanation for the variances are not documented. These are given to Employee B to make the deposit. The deposit is never balanced back to the cafeteria accounting system and, the variances are not reviewed.

Context – Over \$2,000,000 of revenue is recorded in the Cafeteria Fund each year.

Effect – Irregularities could occur and not be noticed by management in a timely manner.

Recommendation – We recommend that the Board of Education implement segregation of duties over cash receipts. Where a segregation of duties is not possible, other internal control measures should be implemented. In addition, we recommend that the cafeteria accounting system reports be used to post to the trial balance.

Views of Responsible Officials and Planned Corrective Actions – The Board of Education has strengthened its internal controls for cash in the Cafeteria Fund by restructuring the segregation of duties over the cash receipts and bank reconciliations. Regarding cash deposits for the Cafeteria Fund operations: cafeteria cashiers count the daily deposits for their register, prepare their deposit slips and put both cash and deposit slips in a sealed deposit bag. The District courier will bring the sealed deposit bags to the Assistant Food Services Director, who will deliver the bags to the bank. When the bags are dropped off at the bank, the Assistant Food Service Director will pick up the prior days deposit slips and send them to the Business Office.

Regarding the cafeteria bank reconciliation: the Food Services Bookkeeper records the daily sales, cash and online deposits in Munis on a daily basis using the point-of-sale (POS) data and reports. The Business Office reconciles the bank deposit slips, bank statements and POS reports each month.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

SD-2015-02 CONTROLS OVER STUDENT ACTIVITY FUNDS

Criteria: The Board of Education holds money in a fiduciary capacity for student groups and clubs. Because of the fiduciary responsibility, this should have equal or greater controls than the Board of Education's own funds.

Condition - The Board of Education has a number of processes in place to monitor the Student Activity Funds. Because there is not a segregation of duties between cash receipts and recordkeeping, the Board should review the controls to make sure that alternate procedures are in place, working and monitored on a regular basis.

Context – Approximately \$1,200,000 of cash receipts and \$1,200,000 of cash disbursement are transacted in the Student Activity Funds each year.

Effect – Irregularities could occur and not be noticed by management in a timely manner.

Recommendation - We recommend that the Board of Education implement segregation of duties over cash receipts. Where a segregation of duties is not possible, other internal control measures should be implemented.

Views of Responsible Officials and Planned Corrective Actions – The Board of Education will strengthen its internal controls for student activities by instituting the following procedures: the district will encourage all student activity groups to use the on-line payment system whenever possible. When cash or checks are collected, the group advisor will prepare the deposit slip and place the deposit slip and cash/checks in a sealed deposit bag. The group advisor will deliver the deposit bag and a copy of the deposit slip to the student activity bookkeeper, who will bring the deposit bag to the bank and record the deposit in the KEV software program. When the bags are dropped off at the bank, the Student Activities Bookkeeper will pick-up the prior days deposit slips, reconcile any differences, record corrections in KEV and report these transactions to the group advisor and the Budget Director. The Budget Director administers the KEV system, and will establish access rights for group advisors to view and verify the transactions that have been recorded in their accounts.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section III - State Financial Assistance Findings and Questioned Costs

Finding # SSA-MW-2015-01 - SUBRECIPIENT MONITORING.

Grantor: Office of Early Childhood
State Program Name: Child Care Services
State Grant CORE-CT Number: 11000-OEC64841-12520

Material Weakness

Criteria – A pass-through entity is responsible for (a) identifying to the sub recipient the State award information such as program identification number, proper title of program, and State source of funding, (b) monitoring the sub recipient's activities to provide reasonable assurance that the sub recipient administers State awards in compliance with State requirements, (c) ensuring required audits are performed and requiring the sub recipient to take prompt corrective action on any audit findings, and (d) evaluating the impact of sub recipient activities on the pass-through entity's ability to comply with applicable State regulations.

Condition – The Town is the pass through entity for a grant from the State of Connecticut for Child Care Services. The Town Finance Department does not have any policies and procedures in place to monitor the sub recipient to provide reasonable assurance that the sub recipient administers the grant in compliance with the requirements. The Town Finance Department simply passes the funding on to the sub recipient.

Effect – This grant was selected this year as a major program for the State Single Audit. The lack of monitoring over the sub recipient is required to be reported as a material weakness in the Town's internal control for that program. It is possible, but not probable, that the Town might need to repay the grant. It is also possible that this could have an effect on future grants.

Recommendation – The Town Finance Office should obtain the State of Connecticut's Office of Policy and Management's annual Compliance Supplement. This lists the rules and regulations for all grants and for this specific grant provides guidance on what the Town should be doing each year to monitor the sub recipient.

Views of Responsible Officials and Planned Corrective Actions – The Town now has the OPM Compliance Supplement which lists the requirements and will use that as a guideline for future understanding of the Town's fiduciary responsibility. The Town physically visits the site on a regular basis, reviews the operation reports on a quarterly basis and relies on the independent annual audit.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Finding # SSA-NC-2015-01 - SUBRECIPIENT MONITORING.

Grantor:	Office of Early Childhood
State Program Name:	Child Care Services
State Grant CORE-CT Number:	11000-OEC64841-12520

Immaterial Noncompliance

The Town did not have controls in place for subrecipient monitoring as discussed above and they did not monitor the subrecipient as required in accordance with the *Compliance Supplement*. This has been identified as a nonmaterial noncompliance because, after testing the subrecipient's compliance as part of the single audit, no noncompliance was reported.

Town of New Canaan, Connecticut

Federal Single Audit
June 30, 2015

**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 Auditors' Report

**To the Town Council
Town of New Canaan, Connecticut**

Report on Compliance for Each Major Federal Program

We have audited the Town of New Canaan, Connecticut's ("Town") compliance with the types of compliance requirements described in the *OMB 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, 2015. 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 the Town's 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 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 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, 2015.

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 a 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. 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 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, 2015, and have issued our report thereon dated December 21, 2015, which contained unmodified 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 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 financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

O'Connor Davies, LLP

December 21, 2015

Town of New Canaan, Connecticut

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal grantor/ Pass-Through grantor program title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Program
U.S. Department of Transportation:			
Pass-Through programs from:			
Connecticut Department of Transportation			
Alcohol Open Container Requirements	20.607	12062-DOT57513-22091	\$ 4,706
U.S. Department of Education:			
Direct Programs:			
Pass-Through programs from:			
Connecticut State Department of Education			
Special Education Cluster (IDEA)			
IDEA, Part B, Section 611, Handicapped - Current	84.027	12060-SDE64370-20977	719,925
IDEA, Part B, Section 611, Handicapped - Carryover	84.027	12060-SDE64370-20977	4,221
IDEA, Part B, Section 619, Preschool - Current	84.173	12060-SDE64370-20983	15,286
<i>Total Special Education Cluster (IDEA)</i>			<u>739,432</u>
Title I - Current	84.010	12060-SDE64370-20679	100,820
Career and Technical Education	84.048	12060-SDE64370-20742	21,081
Title II - Part A, Improving Teacher Quality - Nonpublic	84.367	12060-SDE64370-20858	49,157
Total U.S. Department of Education			<u>910,490</u>
U.S. Department of Health and Human Services:			
Pass-Through programs from:			
Connecticut Office of Early Childhood			
Social Services Block Grant, Child Day Care - HHS	93.667	12060-OEC64841-22668	55,514
U.S. Department of Homeland Security:			
Direct Programs:			
Assistance to Firefighters Grant	97.044	Not Applicable	335
Assistance to Firefighters Grant	97.044	Not Applicable	51,676
			<u>52,011</u>
Pass-Through programs from:			
Connecticut Department of Emergency Management and Homeland Security			
Emergency Management Performance Grant	97.042	12060-DPS32160-21881	29,305
Emergency Management Performance Grant	97.042	12060-DPS32160-21881	28,489
Total U.S. Department of Homeland Security			<u>109,805</u>
Total Federal Financial Assistance			<u>\$ 1,080,515</u>

The accompanying notes are an integral part of this schedule

Town of New Canaan, Connecticut

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

1. Summary Of Significant Accounting Policies

General

The accompanying Schedule of Expenditures of Federal Awards presents activity of all federal award programs for the year ended June 30, 2015. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the Schedule.

Basis of Accounting

The financial statements for the governmental fund types contained in Town of New Canaan, Connecticut's ("Town") basic financial statements are prepared on the modified accrual basis of accounting. The government-wide financial statements and the financial statements for the business-type activities are prepared on the full accrual basis of accounting,

- Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period,
- Expenditures are generally recorded when a liability is incurred except for debt service expenditures, as well as certain other expenditures, when applicable, related to compensated absences, pension obligations, landfill closure costs, claims and judgments, and other post-employment benefits which are recorded only when payment is due (matured).

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Pass-through to Subrecipients

The Town is a pass-through entity for the Social Services Block Grant, Child Day Care from the U.S. Department of Health and Human Services CFDA number 93.667. \$55,514 was passed through to a subrecipient.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section 1 - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued unmodified

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

Type of report issued on compliance for major programs: Unmodified

Audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

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

CFDA Number(s)	Name of Federal Program or Cluster
	Special Education Cluster (IDEA)
84.027	IDEA, Part B, Section 611, Handicapped
84.173	IDEA, Part B, Section 619, Preschool

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low risk auditee? yes no

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section II - Financial Statement Findings

MATERIAL WEAKNESSES IN THE FINANCIAL AUDIT

MW-2015-01 – TIMELY AND ACCURATE FINANCIAL REPORTING

Criteria – Regular analysis and reconciliations of all balance sheet and other key accounts help ensure accurate and timely financial reporting. This is required to assist management in making appropriate decisions and is essential for internal control.

Condition – During our audit, we noted that the Town does not maintain month-end or year-end closing schedules to support the balance sheet accounts and other key accounts. (This has been noted as a weakness for the previous 3 years.) These key accounts include reconciling the Board of Education's expenditures and balance sheet accounts (a subset of the general government's activity) to the general government's general ledger. (The reconciliation between the Board of Education and the general government's general ledger has been noted as a weakness for the previous 3 years.)

Effect – Management did not have adequate financial reporting to make decisions and comply with budgeting rules and regulations in the Town's charter. The financial reports that were being produced were materially misstated. The Town's internal controls were greatly compromised.

Context - When comparing the first "final" trial balance provided by the Town to the figures in the audit: cash accounts were misstated by a net amount of \$3,668,875, other assets by \$882,357, liabilities by \$4,378,636, equity by \$1,656,225, revenues by \$561,804 and expenditures by \$4,947,125. The significant areas misstated were balancing with the Board of Education, balancing with the Tax Collector and balancing internal transactions with other funds.

Cause – The regular analysis and reconciliations of all balance sheet and other key accounts was not assigned to anyone in the Town finance office. There were no appropriate monthly or annual closing checklists and timelines nor were there an appropriate internal financial review of the financial reports.

Recommendation – Written financial reporting procedures must be developed. A checklist of monthly and annual closing procedures must be prepared and deadlines set. Finally, this must be monitored internally to assure timely and accurate financial reporting.

Views of Responsible Officials and Planned Corrective Actions – The FY 2015 reconciliation between the Town and Board of Education for the Board's expenditures merited extensive analytical review at year-end to ensure the FY 2014 year-end accruals were correctly stated and reversed, and that the FY 2015 transactions were recorded accurately. While the Town and Board of Education had reviewed expenditures on a monthly basis from July 2014 through April 2015, the reconciliation between the expenditures and corresponding balance sheet accounts occurred after the end of the fiscal year.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

MW-2015-01 – TIMELY AND ACCURATE FINANCIAL REPORTING (Continued)

While time-consuming, this process enabled the Town and Board of Education to liquidate approximately \$1.1M in prior year accruals and \$500k in current year encumbrances and accruals. As a result, the Town was able to increase the undesignated fund balance by this amount. Since this analytical review was fluid throughout the process for both the Town and Board of Education, we recognize that it would have been prudent to have delayed the audit until the completion of the final reconciliation. A majority of the differences noted by the audit are directly related to the Town's decision to delay recording of the FY 2015 year-end accrual for the Board of Education's salaries until the auditor's review of the transactions. This decision was not related to a lack of internal controls. Rather, it was based on the emerging fact that there was an adjusting entry in FY 2015 related to the FY 2014 year-end accrual and subsequent reversal, which prompted the need for a closer review of the same transactions for FY 2015 year-end.

Moving forward, the Town and Board of Education will strengthen the month and year-end reconciliation by instituting procedures to reconcile expenditures to the appropriate balance sheet accounts by jointly establishing and implementing a month and year-end reconciliation schedule and checklist at the beginning of each year. The staff responsible for this reconciliation will issue a month and year-end reconciliation report that clearly compares the expenditure balances on the Board of Education's ledger to the corresponding balance sheet accounts on the Town's trial balance. This process will ensure the timely reconciliation of the Board of Education's expenditures to the Town's Balance Sheet and the accuracy of the financial reports used to make decisions.

While the FY 2015 year-end close was extended beyond the original schedule and there were several adjusting journal entries required to properly reflect the financial transactions on both the Town and Board of Education's trial balances, we believe that this effort was necessary to ensure the accuracy of the Financial Statements of the Town of New Canaan.

The finance department is working toward improving month end close and reconciliation for all accounts with the implementation of the new financial system. The Town post payments upon receipt from the Tax Collector's department. There were a few adjustments that were held until the end of the fiscal year and reviewed between the collector's office and finance office. All adjustments going forward will be reviewed upon receipt by the finance department and posted appropriately.

The Finance Department went through an extensive review of all accounts while implementing their new Financial Software system, MUNIS, and creating a completely new chart of accounts that complies with the unified chart of accounts (UCOA) at the state. Clean up of accounts will continue.

It is noted by the Auditors in MW-2015-01 five (5) distinct times that solely the Town's Finance department is a resulting cause for their finding. While the Town's Finance department takes full responsibility for their actions the message needs clarification for the reader.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

MW-2015-01 – TIMELY AND ACCURATE FINANCIAL REPORTING (Continued)

In the past three and a half years the Town's Finance Department has had to continually adjust to three (3) Complete administration/finance turnovers within the Board of Education. We are adjusting to our third Superintendent, our third Director of Finance and Operations, our fourth Budget Director and our third Payroll Administrator. Contrary to what the Auditors note, the Town's Finance office does have procedures and processes in place to record the detail received by the Board of Education on the Town's books and with appropriate review, however, these process and procedures have been strained each time there has been turn over. Further strain was added while as the Board of Education brought their payroll in-house with a "go live" date of May 2015.

As noted above in our joint response, the Town's Finance department has complete confidence with the current administration and finance personnel in place at the Board of Education to be able to move forward with timely and accurate posting and review of all balance sheet accounts as well as the expenditures necessary to ensure accurate financial reports are produced and distributed.

In addition to the above turnover stated, the Town's Finance Department has been understaffed causing further impediments on the ability for the staff to complete all the required work timely. The Town's Finance Department during the fiscal year 2014-2015 in addition to our other constraints implemented a new Town accounting system with a "go live" date of July 1, 2015.

MW-2015-02 – INTEGRATED CONTROLS OVER TAX COLLECTION PROCEDURES

Criteria – Tax Collections represents a significant cycle of transactions within the Town which account for over 90% of the Town General Fund's \$140 million budget. Although the Town enjoys the highest tax collection rate in the state, proper policies and procedures need to be in place surrounding tax collections in all departments that are involved.

Condition – A common and efficient control is a segregation of duties. This requires that the custody of assets (such as the collection of payments) be done by a separate individual than the recordkeeping of the transaction (such as posting the payments and calculating the balances). And a third individual should be authorizing transactions (such as adjustments to taxes and tax payments). When this is not possible or not practical, other controls must be put in place. Because these are controls over the tax collection office, they should be developed outside of, but in conjunction with, the tax collection office. Putting these controls in place would generally be the responsibility of the Town Finance Department and would be approved by the Town Council and the Audit Committee.

Currently the Tax Collector has established certain policies and procedures and, because of the size of the office, the duties they must perform and that each employee in the office reports to the Tax Collector, a segregation of duties is not possible or practical. No additional controls have been put in place by the Town Finance Department. (This has been noted as a weakness for the previous 3 years.)

Effect – Although there were no irregularities within the Tax Collector's department noted during the audit, material errors or irregularities could occur and not be identified by management in a timely fashion.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

MW-2015-02 – INTEGRATED CONTROLS OVER TAX COLLECTION PROCEDURES (Cont.)

Cause – The Town Finance Department has not appropriately assessed risk and mitigated those risks with appropriately designed policies and procedures.

Recommendation – The Town Finance Department should understand the processes and risks associated with the current system and design policies and procedures to mitigate the risks.

Views of Responsible Officials and Planned Corrective Actions – Segregation does take place in that no single employee sees any of the steps related to the acceptance of cash all the way. Staffing levels are appropriate for an office of its size.

The Town's Finance Department works with the Tax collector who is a certified professional in her field with the experience and knowledge necessary on the implementation of required processes and procedures to establish internal controls that mitigate risks. Both the Finance Director and the Tax collector benchmark with other municipalities and professional organizations for best practices on risk prevention and control. Further review is taking place with the Tax Collector to design procedures to accommodate as much of the audit recommendations/concerns as possible.

The Auditors mention solely the Town's Finance Department five (5) distinct times within the MW-2015-02 weakness. While the Town's Finance Department takes sole responsibility for their actions, it is important to note that The Town's Finance Department hired O'Connor and Davies to help them with their Tax Collection reconciliation process in 2013. The Finance Department will continue to improve the posting of the tax collection reconciliation with the Grand Rate Book (GRB) and the impress account in order to strengthen procedures and minimize any weaknesses in internal controls.

In management's opinion the 3 individuals provide the Town with the required checks and balances. There is a "sign off" at every level thus allowing instant identification of the individual involved should an issue develop. The only other option would be to hire another individual in the Tax collector's office who's responsibility is specifically collection of funds and over seen by one of the other Tax Collectors' senior staff, taking the Tax Collector out of the approval process completely.

The Tax Collector must and does follow state statutes on court stips when processing a transfer. All proper paperwork and backup is attached to all transactions. Delinquent statements are sent out timely. Postage is reviewed for normal delinquent statements and amounts. All resident accounts are on the web site and accessible for anyone to review at any time.

The tax collector's Zero Balance Account (ZBA) bank account is reviewed and coded for each batch. Finance reviews all batches listed against the posted batch report monthly and reconciles that all batches are posted accurately on the town's general ledger. The tax collector's ZBA has a daily automatic sweep into the Pooled Cash account on the Town's general ledger. The Town's accounting manual is going through a complete review and update.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

SIGNIFICANT DEFICIENCIES IN THE FINANCIAL AUDIT

SD-2015-01 CAFETERIA REVENUES

Criteria – A point of sale system collects financial data and creates a sales journal and cash receipts journal. (A) These journals are posted to the trial balance to create the basis for financial reporting; And (B) if the point of sale system is used appropriately, it can also assist with a well-documented audit trail.

Condition – (A) The cafeteria uses a point of sale system to record student lunches and student payments. The Board of Education Finance Office does not use any information from the cafeteria accounting system to post the trial balance. The Board of Education Finance Office posts the cafeteria revenue directly from the deposits reported on the bank statements.

(B) In addition, the controls from the point of sale system are not maximized to create appropriate internal controls. Employee A balances the cash and checks to the transaction receipt (like a “z tape” from a cash register) and the electronic payment records (postings to the children’s accounts) daily. This procedure and the explanation for the variances are not documented. These are given to Employee B to make the deposit. The deposit is never balanced back to the cafeteria accounting system and, the variances are not reviewed.

Context – Over \$2,000,000 of revenue is recorded in the Cafeteria Fund each year.

Effect – Irregularities could occur and not be noticed by management in a timely manner.

Recommendation – We recommend that the Board of Education implement segregation of duties over cash receipts. Where a segregation of duties is not possible, other internal control measures should be implemented. In addition, we recommend that the cafeteria accounting system reports be used to post to the trial balance.

Views of Responsible Officials and Planned Corrective Actions – The Board of Education has strengthened its internal controls for cash in the Cafeteria Fund by restructuring the segregation of duties over the cash receipts and bank reconciliations. Regarding cash deposits for the Cafeteria Fund operations: cafeteria cashiers count the daily deposits for their register, prepare their deposit slips and put both cash and deposit slips in a sealed deposit bag. The District courier will bring the sealed deposit bags to the Assistant Food Services Director, who will deliver the bags to the bank. When the bags are dropped off at the bank, the Assistant Food Service Director will pick up the prior days deposit slips and send them to the Business Office.

Regarding the cafeteria bank reconciliation: the Food Services Bookkeeper records the daily sales, cash and online deposits in Munis on a daily basis using the point-of-sale (POS) data and reports. The Business Office reconciles the bank deposit slips, bank statements and POS reports each month.

Town of New Canaan, Connecticut

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

SD-2015-02 CONTROLS OVER STUDENT ACTIVITY FUNDS

Criteria: The Board of Education holds money in a fiduciary capacity for student groups and clubs. Because of the fiduciary responsibility, this should have equal or greater controls than the Board of Education's own funds.

Condition - The Board of Education has a number of processes in place to monitor the Student Activity Funds. Because there is not a segregation of duties between cash receipts and recordkeeping, the Board should review the controls to make sure that alternate procedures are in place, working and monitored on a regular basis.

Context – Approximately \$1,200,000 of cash receipts and \$1,200,000 of cash disbursement are transacted in the Student Activity Funds each year.

Effect – Irregularities could occur and not be noticed by management in a timely manner.

Recommendation - We recommend that the Board of Education implement segregation of duties over cash receipts. Where a segregation of duties is not possible, other internal control measures should be implemented.

Views of Responsible Officials and Planned Corrective Actions – The Board of Education will strengthen its internal controls for student activities by instituting the following procedures: the district will encourage all student activity groups to use the on-line payment system whenever possible. When cash or checks are collected, the group advisor will prepare the deposit slip and place the deposit slip and cash/checks in a sealed deposit bag. The group advisor will deliver the deposit bag and a copy of the deposit slip to the student activity bookkeeper, who will bring the deposit bag to the bank and record the deposit in the KEV software program. When the bags are dropped off at the bank, the Student Activities Bookkeeper will pick-up the prior days deposit slips, reconcile any differences, record corrections in KEV and report these transactions to the group advisor and the Budget Director. The Budget Director administers the KEV system, and will establish access rights for group advisors to view and verify the transactions that have been recorded in their accounts.

Section III - Federal Financial Assistance Findings And Questioned Costs

No findings or questioned cost are reported relating to Federal financial assistance programs.