

**Town of New Canaan, Connecticut**

Internal Control and Compliance Reports  
June 30, 2016

# Town of New Canaan, Connecticut

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Year Ended June 30, 2016

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# Government Auditing Standards Report

**Independent Auditors' 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**

**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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated March 15, 2017.

**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 internal control was for the limited purpose described in the first paragraph of this section 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 schedule of findings, 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 deficiency described as item MW-2015-001 and MW-2015-002 in the accompanying schedule of findings to be a material weakness.

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 as items SD-2016-001, SD-2016-002, SD-2016-003, and SD-2016-004 in the accompanying schedule of findings 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. 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 dated March 15, 2017.

### **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.

*PKF O'Connor Davies, LLP*

March 15, 2017

# State Single Audit

**Independent Auditors' 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**

**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, 2016. The Town's major state programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings.

***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 types of 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, 2016.

## **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 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 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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We have issued our report thereon dated March 15, 2017, 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.

*PKF O'Connor Davies, LLP*

March 15, 2017

**Town of New Canaan, Connecticut**

Schedule of Expenditures of State Financial Assistance  
For the Year Ended June 30, 2016

<b>State Grantor Pass-Through Grantor Program Title</b>	<b>State Grant Program Core-CT Number</b>	<b>Passed Through to Subrecipients</b>	<b>Expenditures</b>
<b>Connecticut State Library</b>			
Historic Documents Preservation Grants	12060-CSL66094-35150	\$ -	\$ 3,000
<b>Department of Energy and Environmental Protection</b>			
Small Town Economic Assistance Program (DEP)	12052-DEP43153-40531	-	39,490
<b>Department of Transportation</b>			
Pay-As-You-Go Transportation Projects	12001-DOT57161-12518	-	14,542
Transit District Grants and Loans Transportation Fund			
- Bus Operations	12001-DOT57931-12175	-	25,399
Town Aid Road Grants Transportation Fund	12052-DOT57131-43455	-	331,097
<b>Total Department of Transportation</b>		-	<b>371,038</b>
<b>Department of Emergency Services and Public Protection</b>			
Enhanced 911 Telecommunication Fund	12060-DPS32741-35190	-	446
<b>Department of Housing</b>			
Main Street Investment Fund	12052-DOH46930-43524	-	201,400
<b>Department of Justice</b>			
Non-Budgeted Operating Appropriation	34001-JUD95162-40001	-	31,961
<b>Department of Revenue Services</b>			
Other Expenses	11000-DRS16312-10020	-	40
<b>Office of Policy and Management</b>			
Reimbursement of Property Tax - Disability Exemption	11000-OPM20600-17011	-	148
Property Tax Relief for Elderly Circuit Breaker	11000-OPM20600-17018	-	25,538
Property Tax Relief for Veterans	11000-OPM20600-17024	-	1,279
Municipal Purposes and Projects	12050-OPM20600-43587	-	200
<b>Total Office of Policy and Management</b>		-	<b>27,165</b>
<b>Office of State Treasurer</b>			
SIF Stipulation and Reimbursement	12060-OTT14710-35111	-	10
Nitrogen Credit Exchange Program	21016-OTT14230-42407	-	89,739
<b>Total Office of State Treasurer</b>		-	<b>89,749</b>
<b>Office of Early Childhood</b>			
Child Care Services	11000-OEC64841-12520	124,907	124,907
<b>Department of Education</b>			
Youth Services Bureau Enhancement	11000-SDE64370-16201	-	5,817
Adult Education	11000-SDE64370-17030	-	35
Health and Welfare - Private School Pupil	11000-SDE64370-17034	-	14,911
Youth Services Bureau	11000-SDE64370-17052	-	14,374
Magnet Schools	11000-SDE64370-17057	-	1,300
High Quality Schools Start Up	12052-SDE64370-43538	-	88,430
<b>Total Department of Education</b>		-	<b>124,867</b>
<b>Total State Financial Assistance before Exempt Programs</b>		<b>\$ 124,907</b>	<b>\$ 1,014,063</b>

(continued)

Town of New Canaan, Connecticut

Schedule of Expenditures of State Financial Assistance  
For the Year Ended June 30, 2016

State Grantor Pass-Through Grantor Program Title	State Grant Program Core-CT Number	Passed Through to Subrecipients	Expenditures
<b>EXEMPT PROGRAMS</b>			
<b>Department of Education</b>			
Education Cost Sharing	11000-SDE64370-17041	\$ -	\$ 1,198,644
Public School Transportation	11000-SDE64370-17027	-	252
Special Education - Excess Cost - Student Based	11000-SDE64370-17047	-	732,329
<b>Total Department of Education</b>		<u>-</u>	<u>1,931,225</u>
<b>Department of Administrative Services</b>			
School Construction Grants - Interest	13009-DAS27636-40896	-	10,409
School Construction Grants - Principal	13009-DAS27636-40901	-	161,705
School Construction Grants	13010-DAS27635-40901	-	119,176
<b>Total Department of Children and Families</b>		<u>-</u>	<u>291,290</u>
<b>Office of Policy and Management</b>			
Mashantucket Pequot and Mohegan Fund Grant	12009-OPM20600-17005	-	8,510
<b>Total Exempt Programs</b>		<u>-</u>	<u>2,231,025</u>
<b>Total State Financial Assistance</b>		<u>\$ 124,907</u>	<u>\$ 3,245,088</u>

## Town of New Canaan, Connecticut

Notes to Schedule of Expenditures of State Financial Assistance  
Year Ended June 30, 2016

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### 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, 2016. 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, 2016

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**2. Bond 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 debt activities. The following is a summary of the various loan program activity for the year ended June 30, 2016:

Department of Environmental Protection:

Clean Water Funds 21014-OTT14230-4001:

	Issue Date	Interest Rate	Original Amount	Beginning Balance	Issued	Retired	Ending Balance
185-D/C	5/31/2000	2%	\$ 12,440,686	<u>\$ 2,816,359</u>	<u>\$ -</u>	<u>\$ (698,250)</u>	<u>\$ 2,118,109</u>

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**Town of New Canaan, Connecticut**

Schedule of Findings  
Year Ended June 30, 2016

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**Section 1 - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' opinion 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?     yes X no
- Significant deficiency(ies) identified?     yes X none reported

Type of auditors' opinion 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?     yes X 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	12052-DOT57131-43455	\$ 331,097
Department of Housing		
Main Street Investment Fund	12052-DOH46930-43524	201,400
Office of the State Treasurer		
Nitrogen Credit Exchange Program	21016-OTT14230-42407	89,739

Dollar threshold used to distinguish between type A and type B programs: \$ 200,000

**Section II - Financial Statement Findings:**

**MATERIAL WEAKNESSES IN THE FINANCIAL AUDIT**

**MW-2015-001 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** – Although improved from the prior year, during our audit we noted that the Town does not maintain an adequate month-end or year-end closing schedule to support all balance sheet accounts. (This has been noted as a weakness for 3 of the previous 4 years.)

**Specific Situations Leading to the Material Weakness in 2016:**

**Continued Comment** – This comment is kept at the level of a material weakness, in accordance with the Auditing Codification AU-C paragraph 265.A20, because, while some changes have been made, it still remains an open item after being noted as a weakness in 3 of the previous 4 years.

**Capital Assets** – Management did not discover a material misstatement in the capital assets as part of their normal closing and reviewing process.

**Prior Year Reversing Entries** – It was not discovered until well after the fiscal year ended that the accruals at the beginning of the year, July 1, 2015, were not appropriately clearing out. This was the case for:

**General Fund Accounts Receivable** – prior year receivables in the amounts of \$161,705 and \$375,109 were received in September 2015 and March 2016, but were still listed as receivables at year end.

**General Fund Accounts Payable** – prior year accounts payable of \$135,468 continued to be carried as accounts payable. This may be partially caused by the computer system not generating an adequate accounts payable subsidiary ledger that shows the balances due by each vendor and the Town has not developed alternative internal reporting.

**Prepaid Expenditures** – prior year prepaid expenses in the General Fund in the amount of \$299,817 and in the sewer fund in the amount of \$8,947 continued to be carried forward as prepaid expenditures.

**Balancing Related Balance Sheet Accounts in conjunction with Income Statement Accounts** – The Town Finance Department began balancing income statement accounts with other departments during the year. However the related balance sheet accounts were not balanced. This was the case for:

**General Fund Taxes Receivable and the Sewer Taxing District Fund** – the cash receipts were balanced for these funds with the tax collector but the full accounting cycle was not balanced. This is discussed further in MW-2015-001.

**Town of New Canaan, Connecticut**

Schedule of Findings  
Year Ended June 30, 2016

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**MW-2015-001      TIMELY AND ACCURATE FINANCIAL REPORTING (Continued)**

**Board of Education Accrued Payroll** – The Town Finance Department balanced with the Board of Education for the total expenditures during the year.

**Other Balance Sheet Issues** – We noted other issues with balance sheet accounts at year end including

**Interfund Transactions** – Receivables and payables between funds did not balance to zero. Balancing these accounts should be a part of the month end and year end closing process.

**Interest Receivable** – The General Fund has been reporting \$43,497 in interest receivable since the 2012-13 fiscal year. This should be reviewed and appropriate follow up action should be taken.

**Unearned Revenues** – The Waveny Pool Fund collects membership fees before the summer swim season begin. These revenues are not earned as of June 30<sup>th</sup> and have been reported as unearned revenue. During fiscal year 2016, all membership fees were reported as revenues whether earned or not.

**Netting of Transactions** – The Town continues to net the grant paid by the Town of New Canaan to a subrecipient with the revenue received by the Town of New Canaan from the State of Connecticut so no transactions are reported in the fund's balance sheet.

**Effect** – The financial reporting was not thoroughly balanced during the year and at year end. This effects internal control, management decisions, compliance with budgets, collection of receivables and payments of payables.

**Cause** – The regular analysis and reconciliations of all balance sheet and other key accounts was not assigned to anyone specific 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. This may be partially caused by the computer system not generating adequate subsidiary ledgers that shows the detail of the balances and the Town has not developed alternative internal reporting.

**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** – FY2015-2016 was the first year on a new financial system with a completely recreated chart of accounts. The new financial system, MUNIS, is very labor intensive and not user friendly when viewing payables. There is no easy way to reconcile other than maintaining an excel sheet of activity. This reconciliation restriction was not expected. The Finance Department will put in place an excel reconciliation to review payables monthly and ensure all payables and other balance sheet accounts are clearing properly. The Town will reach out to MUNIS and inquire if software will be updated to allow for easier detail review of balance sheet items.



**Town of New Canaan, Connecticut**

Schedule of Findings  
Year Ended June 30, 2016

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**MW-2015-002 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. This is the same system used in the Sewer Taxing District Fund.

**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 performed by a separate individual than the recordkeeping of the transaction (such as posting the payments and calculating the balances). 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.

**Specific Situations Leading to the Material Weakness:**

**Continued Comment** – This comment is kept at the level of a material weakness, in accordance with the Auditing Codification AU-C paragraph 265.A20, because, while some changes have been made, it still remains an open items after being noted as a weakness for the previous 4 years.

**Payments on Taxes** – Up to three individuals in the tax collection department handle the cash collections before they go to the bank. If ever there was a discrepancy in the cash and checks collected, the Town would not be able to determine where the discrepancy occurred.

The individual that is posting the deposits into the tax program also has custody of the cash and makes the deposit.

During the 2016 fiscal year, the Finance Department began reconciling the cash transactions reported in the tax collector’s reports to the tax revenues reported in the general ledger. While the revenues were reconciled with the tax collector’s report, the balance sheet accounts (taxes receivable, interest receivable and deferred taxes) were not balanced to the general ledger for either the General Fund or the Sewer Taxing District Fund. These balance sheet accounts were misstated due to mispostings of refunds and failure to post the assessors adjustments to the tax levy. In addition, collections on suspense accounts were not included in the reconciliation process.

**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. These policies and procedures should be written, reviewed by the oversight board(s) and shared with the individuals in the system.

**Town of New Canaan, Connecticut**

Schedule of Findings  
Year Ended June 30, 2016

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

**Views of Responsible Officials** – The Town’s Finance Department, as directed by the Audit Committee and Board of Selectmen, engaged in an internal audit of the Tax Collector’s Office. The audit took a deep dive in to the IT system(s) in use by the office and other processes. Upon completion of this audit work, the Finance Department has revised processes of the Tax Collector to incorporate procedures to mitigate risk.

The addition of the position of Controller was added to Finance in May and approximately 25% of this employee’s time has been directed to the Tax Collector Office. Through these efforts Finance implemented an entirely new review and reconciliation process with the Tax Collectors department. While all revenue was reconciled and properly posted there were two processes that missed incorporating the clearing of the balance sheet accounts – refunds and Certificate of Change transactions that were missed in the clearing of the accounts receivable and unearned revenue accounts. The Town has since added steps to the recording of both of these transactions to include the corresponding balance sheet entry.

Potential Risks are better understood since last year. 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. The First Selectman and Finance Director will devote one full day in the Tax Collector’s office this Spring to better understand transactional processes and further assess potential risk and control. The Finance Department will update their procedure manual to incorporate additional reviews of areas of potential risk.

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. As a matter of practicality, the First Selectman and the Tax Collector feel they still can’t support the hiring of an additional staff member for that office to comply with the auditor’s recommendations but will look into the implementation of a Validator. Of note: The Tax Collector took in \$151K in cash payments last year, maintains the highest collection rate in the State and has cameras in operation throughout the office. We have asked the Internal Auditors to look over all revenue and collections coming to the Town so we can emulate best practices when practical.

**SIGNIFICANT DEFICIENCIES IN THE FINANCIAL AUDIT**

**SD-2016-001      IMPLEMENTATION OF THE NEW ACCOUNTING SOFTWARE IN THE TOWN FINANCE OFFICE**

**Criteria** – Proper design of a system of internal controls extends to the use of the automated capabilities in the financial accounting software.

**Condition** – Three individuals within the Finance Department have Super User application access to perform their jobs. Although Super User Access provides unrestricted access, audit logs have not been activated for routine review of unusual transaction activity by an independent person

**Effect** – The Super User privilege allows the same person to make security access changes and to perform incompatible financial duties that are not in accordance with organizational policy. Further erroneous or questionable transaction activity might not be detected, investigated and corrected on a timely basis.

**Recommendation** – An independent individual should be responsible for reviewing audit logs of activity performed by accounts with Super User access. This will likely require working with the vendor to better understand how to flag transactions meeting specified criteria (e.g. high dollar value, activity in a dormant account, journal entries with limited support) and MUNIS training to familiarize the individual in IT or another department who will be asked to perform these tasks.

**Views of Responsible Officials** – The Town will reach out to MUNIS to obtain a better understanding of the activity logs and various monitoring capabilities. The Town will also review having an independent party be responsible for the monitoring of these logs.

**SD-2016-002      TOWN ACCOUNTING MANUAL**

**Criteria** – It is important for the policies and procedures manual to be current and consistent. It is important for the actual policies and procedures to be in the manual and distributed to the Boards and committees so they can do an appropriate job of assessing risk. It is important for the actual policies and procedures to be in the manual and distributed to the users for their compliance.

**Condition** – The Town has two accounting policies and procedures manuals. One was prepared on January 31, 2002. This is not up to date with the current practices. There are policies and procedures that are not being followed and there are policies and procedures that contradict other policies and procedures manuals. A second policies and procedures manual was prepared on January 2, 2014. This is still being updated and customized to the Town and has yet to be implemented. It has however been distributed to the staff for their review and recommended changes.

## Town of New Canaan, Connecticut

Schedule of Findings  
Year Ended June 30, 2016

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### SD-2016-002 TOWN ACCOUNTING MANUAL (Continued)

**Effect** – Management and those charged with governance cannot perform an appropriate risk assessment if the control policies are not current, relevant and written. The controls over the processes are weakened when they are not written and reviewed by the individuals involved. And, the processes could change as the individuals in the cycles change.

**Recommendation** – The policies and procedures manual should be updated, reviewed and approved as required. To keep from having conflicting policies and procedures, there should be one manual which includes all the departments.

**Views of Responsible Officials** – The Town Finance Department has a full policy and procedure manual completed. It was left in draft form so as to allow any internal audit recommendations to be updated as well as review by all those involved to give any feedback once time allowed for review of their area. Upon discussion of this with the Auditors the Finance Department has removed the Draft watermark and will present the policy and procedure manual to the boards.

### SD-2016-003 JOURNAL ENTRIES

**Criteria** – Journal entries are used to record or change transactions. As such, there needs to be controls over the journal entry process to be assured that the entry is appropriate and authorized.

**Condition** – The Town Finance Office prepares a number of adjusting journal entries. Review and approval of these entries is not always documented. In our testing we noted nonstandard journal entries posted throughout the year, up to and including June 30, 2016, which did not have documentation of review and approval of the entry.

**Recommendation** – The Town should keep a listing of the standard, recurring journal entries and decide if these need to be reviewed and approved. All nonstandard entries should be reviewed and approved.

**Views of Responsible Officials** – Management has put in place a review of journal entries prior to posting with the hiring of the Comptroller.

## Town of New Canaan, Connecticut

Schedule of Findings  
Year Ended June 30, 2016

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### SD-2016-004 FINANCIAL REPORTING/MONITORING OF THE TOWN'S VARIOUS FUNDS

**Criteria** – A good internal control system incorporates monitoring of the control systems and functions. A common method of monitoring includes management and those charged with governance periodically reviewing the interim financial statements, balance sheet and income statement, to be assured that the figures reported and relationships between the figures reported meet expectations and ask questions for items that appear out of line with expectations.

**Condition** – The Town provides an abbreviated General Fund budget verses actual report for review. This is not printed directly from the computer system. The Town does not provide balance sheets and income statements periodically throughout the year for all funds.

**Effect** – Monitoring, at the highest level, has not been incorporated into the Town's policies and procedures. In addition, basic financial information is not being shared on all funds for timely and informed decision making.

**Recommendation** – We recommend a schedule be established for financial reporting so that the oversight boards get complete timely reporting that might include: balance sheets, income statements, budget vs. actual reports (annual or project length, as appropriate), and details of programs for all funds on a regular basis. These reports should come directly from the computer system to avoid adding additional controls needed on internally manipulated reports.

**Views of Responsible Officials** – The Town will include a trial balance review of all funds with the Town's boards on a quarterly basis

### Section III - State Financial Assistance Findings and Questioned Costs

No matters were reported

**Town of New Canaan, Connecticut**

Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2016

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**FINANCIAL STATEMENT FINDINGS**

**Prior Year Material Weaknesses**

**MW-2015-001 – Timely and Accurate Financial Reporting**

This finding has been repeated in 2016 as MW-2015-001

**MW-2015-02 – Integrated Controls over Tax Collection Procedures**

This finding has been repeated in 2016 as MW-2015-002

**Prior Year Significant Deficiencies**

**SD-2015-01 Cafeteria Revenues**

This finding is not being repeated in 2016.

**SD-2015-02 Controls over Student Activity Funds**

This finding is not being repeated in 2016.

**STATE FINANCIAL ASSISTANCE FINDINGS**

**Prior Year Material Weaknesses**

**SSA-MW-2015-01 - Subrecipient Monitoring**

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

This finding is not being repeated in 2016.

# Federal Single Audit

**Independent Auditors' Report on Compliance for Each Major Federal Program  
And Report on Internal Control over Compliance and Report on the Schedule of Expenditures of  
Federal Awards Required by the Uniform Guidance**

**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, 2016. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.



## Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

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

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

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon dated March 15, 2017, 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 basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*PKF O'Connor Davies, LLP*

March 15, 2017

**Town of New Canaan, Connecticut**

Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

<b>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Expenditures to Sub- Recipients</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Justice</b>				
Pass-Through programs from:				
Connecticut Office of Policy and Management				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	12060-OPM20350-21921	\$ -	\$ 5,830
<b>U.S. Department of Transportation:</b>				
Pass-Through programs from:				
Connecticut Department of Transportation				
<b>Highway Planning and Construction Cluster</b>				
Highway Planning and Construction	20.205	12062-DOT57124-22108	-	47
Highway Planning and Construction	20.205	12062-DOT57161-22108	-	17,000
Highway Planning and Construction	20.205	12062-DOT57191-22108	-	8,550
<i>Total Highway Planning and Construction Cluster</i>			-	25,597
Alcohol Open Container Requirements	20.607	12062-DOT57513-22091	-	2,329
<b>Total U.S. Department of Transportation</b>			-	27,926
<b>U.S. Department of Education:</b>				
<b>Direct Programs:</b>				
English Language Acquisition State Grants	84.365	Not Applicable	-	8,111
Pass-Through programs from:				
Connecticut State Department of Education				
<b>Special Education Cluster (IDEA)</b>				
Special Education - Grants to States	84.027	12060-SDE64370-20977 Cu	-	755,462
Special Education - Grants to States	84.027	12060-SDE64370-20977 Co	-	37,046
Subtotal	84.027		-	792,508
Special Education - Preschool Grants	84.173	12060-SDE64370-20983 Cu	-	15,334
<i>Total Special Education Cluster (IDEA)</i>			-	807,842
Title I Grants to Local Educational Agencies	84.010	12060-SDE64370-20679 Cu	-	104,944
Title I Grants to Local Educational Agencies	84.010	12060-SDE64370-20679 Co	-	485
Subtotal	84.010		-	105,429
Career and Technical Education - Basic Grants to States	84.048	12060-SDE64370-20742 Cu	-	25,083
Improving Teacher Quality - Nonpublic	84.367	12060-SDE64370-20858 Cu	-	2,691
Improving Teacher Quality - Nonpublic	84.367	12060-SDE64370-20858 Co	-	9,856
Improving Teacher Quality	84.367	12060-SDE64370-20858 Co	-	51,010
Subtotal	84.367		-	63,557
<b>Total U.S. Department of Education</b>			-	1,010,022
<b>U.S. Department of Health and Human Services</b>				
Pass-Through programs from:				
Connecticut Office of Early Childhood				
Social Services Block Grant	93.667	12060-OEC64841-22668	116,459	116,459
<b>Total U.S. Department of Health and Human Services</b>			116,459	116,459
<b>U.S. Department of Homeland Security</b>				
Pass-Through programs from:				
Connecticut Department of Emergency Management and Homeland Security				
Emergency Management Performance Grants	97.042	12060-DPS32160-21881	-	9,770
Emergency Management Performance Grants	97.042	12060-DPS32160-21881	-	37,186
<b>Total U.S. Department of Homeland Security</b>			-	46,956
<b>Total Federal Financial Assistance</b>			<b>\$ 116,459</b>	<b>\$ 1,207,193</b>

## Town of New Canaan, Connecticut

Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

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### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards ("Schedule") includes the federal award activity of Town of New Canaan, Connecticut ("Town") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Town.

### 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Town has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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).

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The Town has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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**Town of New Canaan, Connecticut**

Schedule of Findings  
For the Year Ended June 30, 2016

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**Section 1 - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued on whether financial statements audited were prepared in accordance with GAAP 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

**Federal Awards**

Internal control over major programs

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

Type of auditors' report issued on compliance for major federal programs unmodified

Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?      yes   X   no

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

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as a low risk auditee?      yes   X   no

**Town of New Canaan, Connecticut**

Schedule of Findings  
For the Year Ended June 30, 2016

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**Section II - Financial Statement Findings:**

**MATERIAL WEAKNESSES IN THE FINANCIAL AUDIT**

**MW-2015-001 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** – Although improved from the prior year, during our audit we noted that the Town does not maintain an adequate month-end or year-end closing schedule to support all balance sheet accounts. (This has been noted as a weakness for 3 of the previous 4 years.)

**Specific Situations Leading to the Material Weakness in 2016:**

**Continued Comment** – This comment is kept at the level of a material weakness, in accordance with the Auditing Codification AU-C paragraph 265.A20, because, while some changes have been made, it still remains an open item after being noted as a weakness in 3 of the previous 4 years.

**Capital Assets** – Management did not discover a material misstatement in the capital assets as part of their normal closing and reviewing process.

**Prior Year Reversing Entries** – It was not discovered until well after the fiscal year ended that the accruals at the beginning of the year, July 1, 2015, were not appropriately clearing out. This was the case for:

**General Fund Accounts Receivable** – prior year receivables in the amounts of \$161,705 and \$375,109 were received in September 2015 and March 2016, but were still listed as receivables at year end.

**General Fund Accounts Payable** – prior year accounts payable of \$135,468 continued to be carried as accounts payable. This may be partially caused by the computer system not generating an adequate accounts payable subsidiary ledger that shows the balances due by each vendor and the Town has not developed alternative internal reporting.

**Prepaid Expenditures** – prior year prepaid expenses in the General Fund in the amount of \$299,817 and in the sewer fund in the amount of \$8,947 continued to be carried forward as prepaid expenditures.

**Balancing Related Balance Sheet Accounts in conjunction with Income Statement Accounts** – The Town Finance Department began balancing income statement accounts with other departments during the year. However the related balance sheet accounts were not balanced. This was the case for:

**General Fund Taxes Receivable and the Sewer Taxing District Fund** – the cash receipts were balanced for these funds with the tax collector but the full accounting cycle was not balanced. This is discussed further in MW-2015-001.

**Town of New Canaan, Connecticut**

Schedule of Findings  
For the Year Ended June 30, 2016

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**MW-2015-001      TIMELY AND ACCURATE FINANCIAL REPORTING (Continued)**

**Board of Education Accrued Payroll** – The Town Finance Department balanced with the Board of Education for the total expenditures during the year.

**Other Balance Sheet Issues** – We noted other issues with balance sheet accounts at year end including

**Interfund Transactions** – Receivables and payables between funds did not balance to zero. Balancing these accounts should be a part of the month end and year end closing process.

**Interest Receivable** – The General Fund has been reporting \$43,497 in interest receivable since the 2012-13 fiscal year. This should be reviewed and appropriate follow up action should be taken.

**Unearned Revenues** – The Waveny Pool Fund collects membership fees before the summer swim season begin. These revenues are not earned as of June 30<sup>th</sup> and have been reported as unearned revenue. During fiscal year 2016, all membership fees were reported as revenues whether earned or not.

**Netting of Transactions** – The Town continues to net the grant paid by the Town of New Canaan to a subrecipient with the revenue received by the Town of New Canaan from the State of Connecticut so no transactions are reported in the fund's balance sheet.

**Effect** – The financial reporting was not thoroughly balanced during the year and at year end. This effects internal control, management decisions, compliance with budgets, collection of receivables and payments of payables.

**Cause** – The regular analysis and reconciliations of all balance sheet and other key accounts was not assigned to anyone specific 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. This may be partially caused by the computer system not generating adequate subsidiary ledgers that show the details of the balances and the Town has not developed alternative internal reporting.

**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** – FY2015-2016 was the first year on a new financial system with a completely recreated chart of accounts. The new financial system, MUNIS, is very labor intensive and not user friendly when viewing payables. There is no easy way to reconcile other than maintaining an excel sheet of activity. This reconciliation restriction was not expected. The Finance Department will put in place an excel reconciliation to review monthly payables and ensure all payables and other balance sheet accounts are clearing properly. The Town will reach out to MUNIS and inquire if software will be updated to allow for easier detail review of balance sheet items.

## Town of New Canaan, Connecticut

Schedule of Findings  
For the Year Ended June 30, 2016

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### MW-2015-002 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. This is the same system used in the Sewer Taxing District Fund.

**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 performed 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.

#### Specific Situations Leading to the Material Weakness:

**Continued Comment** – This comment is kept at the level of a material weakness, in accordance with the Auditing Codification AU-C paragraph 265.A20, because, while some changes have been made, it still remains an open items after being noted as a weakness for the previous 4 years.

**Payments on Taxes** – Up to three individuals in the tax collection department handle the cash collections before they go to the bank. If ever there was a discrepancy in the cash and checks collected, the Town would not be able to determine where the discrepancy occurred.

The individual that is posting the deposits into the tax program also has custody of the cash and makes the deposit.

During the 2016 fiscal year, the Finance Department began reconciling the cash transactions reported in the tax collector's reports to the tax revenues reported in the general ledger. While the revenues were reconciled with the tax collector's report, the balance sheet accounts (taxes receivable, interest receivable and deferred taxes) were not balanced to the general ledger for either the General Fund or the Sewer Taxing District Fund. These balance sheet accounts were misstated due to mispostings of refunds and failure to post the assessors adjustments to the tax levy. In addition, collections on suspense accounts were not included in the reconciliation process.

**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. These policies and procedures should be written, reviewed by the oversight board(s) and shared with the individuals in the system.

**Town of New Canaan, Connecticut**

Schedule of Findings  
For the Year Ended June 30, 2016

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

**Views of Responsible Officials** – The Town’s Finance Department, as directed by the Audit Committee and Board of Selectmen, engaged in an internal audit of the Tax Collector’s Office. The audit took a deep dive in to the IT system(s) in use by the office and other processes. Upon completion of this audit work, the Finance Department has revised processes of the Tax Collector to incorporate procedures to mitigate risk.

The addition of the position of Controller was added to Finance in May and approximately 25% of this employee’s time has been directed to the Tax Collector Office. Through these efforts Finance implemented an entirely new review and reconciliation process with the Tax Collectors department. While all revenue was reconciled and properly posted there were two processes that missed incorporating the clearing of the balance sheet accounts – refunds and Certificate of Change transactions that were missed in the clearing of the accounts receivable and unearned revenue account. The Town has since added steps to the recording of both of these transactions to include the corresponding balance sheet entry.

Potential Risks are better understood since last year. 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. The First Selectman and Finance Director will devote one full day in the Tax Collector’s office this Spring to better understand transactional processes and further assess potential risk and control. The Finance Department will update their procedure manual to incorporate additional reviews of areas of potential risk.

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. As a matter of practicality, the First Selectman and the Tax Collector feel they still can’t support the hiring of an additional staff member for that office to comply with the auditor’s recommendations but will look into the implementation of a Validator. Of note: The Tax Collector took in \$151K in cash payments last year, maintains the highest collection rate in the State and has cameras in operation throughout the office. We have asked the Internal Auditors to look over all revenue and collections coming to the Town so we can emulate best practices when practical.



**SIGNIFICANT DEFICIENCIES IN THE FINANCIAL AUDIT**

**SD-2016-001      IMPLEMENTATION OF THE NEW ACCOUNTING SOFTWARE IN THE  
TOWN FINANCE OFFICE**

**Criteria** – Proper design of a system of internal controls extends to the use of the automated capabilities in the financial accounting software.

**Condition** – Three individuals within the Finance Department have Super User application access to perform their jobs. Although Super User Access provides unrestricted access, audit logs have not been activated for routine review of unusual transaction activity by an independent person

**Effect** – The Super User privilege allows the same person to make security access changes and to perform incompatible financial duties that are not in accordance with organizational policy. Further erroneous or questionable transaction activity might not be detected, investigated and corrected on a timely basis.

**Recommendation** – An independent individual should be responsible for reviewing audit logs of activity performed by accounts with Super User access. This will likely require working with the vendor to better understand how to flag transactions meeting specified criteria (e.g. high dollar value, activity in a dormant account, journal entries with limited support) and MUNIS training to familiarize the individual in IT or another department who will be asked to perform these tasks.

**Views of Responsible Officials** – The Town will reach out to MUNIS to obtain a better understanding of the activity logs and various monitoring capabilities. The Town will also review having an independent party be responsible for the monitoring of these logs.

**SD-2016-002      TOWN ACCOUNTING MANUAL**

**Criteria** – It is important for the policies and procedures manual to be current and consistent. It is important for the actual policies and procedures to be in the manual and distributed to the Boards and committees so they can do an appropriate job of assessing risk. It is important for the actual policies and procedures to be in the manual and distributed to the users for their compliance.

**Condition** – The Town has two accounting policies and procedures manuals. One was prepared on January 31, 2002. This is not up to date with the current practices. There are policies and procedures that are not being followed and there are policies and procedures that contradict other policies and procedures manuals. A second policies and procedures manual was prepared on January 2, 2014. This is still being updated and customized to the Town and has yet to be implemented. It has however been distributed to the staff for their review and recommended changes.

## Town of New Canaan, Connecticut

Schedule of Findings  
For the Year Ended June 30, 2016

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### SD-2016-002 TOWN ACCOUNTING MANUAL (Continued)

**Effect** – Management and those charged with governance cannot perform an appropriate risk assessment if the control policies are not current, relevant and written. The controls over the processes are weakened when they are not written and reviewed by the individuals involved. And, the processes could change as the individuals in the cycles change.

**Recommendation** – The policies and procedures manual should be updated, reviewed and approved as required. To keep from having conflicting policies and procedures, there should be one manual which includes all the departments.

**Views of Responsible Officials** – The Town Finance Department has a full policy and procedure manual completed. It was left in draft form so as to allow any internal audit recommendations to be updated as well as review by all those involved to give any feedback once time allowed for review of their area. Upon discussion of this with the Auditors the Finance Department has removed the Draft watermark and will present the policy and procedure manual to the boards.

### SD-2016-003 JOURNAL ENTRIES

**Criteria** – Journal entries are used to record or change transactions. As such, there needs to be controls over the journal entry process to be assured that the entry is appropriate and authorized.

**Condition** – The Town Finance Office prepares a number of adjusting journal entries. Review and approval of these entries is not always documented. In our testing we noted nonstandard journal entries posted throughout the year, up to and including June 30, 2016, which did not have documentation of review and approval of the entry.

**Recommendation** – The Town should keep a listing of the standard, recurring journal entries and decide if these need to be reviewed and approved. All nonstandard entries should be reviewed and approved.

**Views of Responsible Officials** – Management has put in place a review of journal entries prior to posting with the hire of the Comptroller.

**Town of New Canaan, Connecticut**

Schedule of Findings  
For the Year Ended June 30, 2016

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**SD-2016-004 FINANCIAL REPORTING/MONITORING OF THE TOWN'S VARIOUS FUNDS**

**Criteria** – A good internal control system incorporates monitoring of the control systems and functions. A common method of monitoring includes management and those charged with governance periodically reviewing the interim financial statements, balance sheet and income statement, to be assured that the figures reported and relationships between the figures reported meet expectations and ask questions for items that appear out of line with expectations.

**Condition** – The Town provides an abbreviated General Fund budget verses actual report for review. This is not printed directly from the computer system. The Town does not provide balance sheets and income statements periodically throughout the year for all funds.

**Effect** – Monitoring, at the highest level, has not been incorporated into the Town's policies and procedures. In addition, basic financial information is not being shared on all funds for timely and informed decision making.

**Recommendation** – We recommend a schedule be established for financial reporting so that the oversight boards get complete timely reporting that might include: balance sheets, income statements, budget vs. actual reports (annual or project length, as appropriate), and details of programs for all funds on a regular basis. These reports should come directly from the computer system to avoid adding additional controls needed on internally manipulated reports.

**Views of Responsible Officials** – The Town will include a trial balance review of all funds with the Town's boards on a quarterly basis

**Section III - Federal Financial Assistance Findings and Questioned Costs**

No matters were reported.

**Town of New Canaan, Connecticut**

Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2016

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**FINANCIAL STATEMENT FINDINGS**

**Prior Year Material Weaknesses**

**MW-2015-001 – Timely and Accurate Financial Reporting**

This finding has been partially repeated in 2016 as MW-2015-001

**MW-2015-02 – Integrated Controls over Tax Collection Procedures**

This finding has been repeated in 2016 as MW-2015-002

**Prior Year Significant Deficiencies**

**SD-2015-01 Cafeteria Revenues**

This finding is not being repeated in 2016.

**SD-2015-02 Controls over Student Activity Funds**

This finding is not being repeated in 2016.

**FEDERAL FINANCIAL ASSISTANCE FINDINGS**

No findings were reported for Federal Financial Assistance in the prior year.