Town of Redding, Connecticut

Report on the Results of the Procedures
Performed at the Redding Board of Education

For the Periods July 1, 2015 to June 30, 2016
and July 1, 2016 through June 30, 2017

Issued April 22, 2019
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Scope of Services
Scope of Services

The agreed scope of service per the engagement letter were as follows:

- Review of procurement and payment procedures, including major contracts.
- Document the process and procedures for disposition of end of year budget surplus, including identification, review and approval.
- Review accruals, encumbrances and payments recorded in May or June (last 2 fiscal years).
- Determine whether any payments or transfers after fiscal year-end were improperly attributed back to the prior fiscal year.
- Determine whether payments from accounts and transfers among accounts were appropriate and authorized. Review the procedures for identification, review and approval of such transfers.
- Determine whether amounts budgeted under grants legally fulfill the requirements and all amounts expended are in accordance with the submission.
- Review and investigate filings and internal review procedures with respect to state reimbursements for special services and determine why payment discrepancies existed.
- Prepare a listing of consultants hired by Central Office administration. Determine what services they provide, what they were paid, and why the services were needed.
- Assessment of Central Office finance staff and capabilities.
- Determine and list the duties of Director of Finance.
- Review of current policies and procedures in place for adequacy of internal controls and to recommend improvements.

The procedures described above were performed for the fiscal years July 1, 2015 through June 30, 2016 and July 1, 2016 through June 30, 2017.
Procurement and Payment Procedures
Procurement and Payment Procedures

Objective

To review procurement and payment procedures, including major contracts.

Background

Redding Board of Education has specific procurement procedures adopted by the Board of Education. The “Soliciting Prices (Bids and Quotations)” Policy No. 3323 states that:

- All contracts for, and purchases of supplies, materials, equipment and contractual services in the amount of $10,000 or more shall be based, when possible, on at least three competitive bids.

- All purchases less than $10,000 in amount may be made in the open market, but shall, when possible, be based on at least three competitive quotations or prices.

Procedures

- We reviewed the policies and procedures and related internal control over the cash disbursements and purchasing.

- We then obtained the detailed expenditures report for the general fund and grants fund for the periods July 1, 2015 through June 30, 2016 and July 1, 2016 through June 30, 2017 and selected disbursement for testing.

Cash disbursements:

1. We examined supporting documentation for each cash disbursement
2. We reviewed the account to which the disbursement was charged
3. We reviewed the disbursement for compliance with the purchasing policy
4. We examined evidence of approval on the supporting documentation
5. We verified that the invoices were properly cancelled with a paid stamp
6. We agreed the payroll posting amounts to the payroll journals

Payroll

For each employee selected, we performed the following procedures:

1. Agreed pay rate to authorized rate in personnel file
2. Recalculated gross pay

- For any transactions selected that were over $10,000, we requested and reviewed the available documentation for bidding.
Procurement and Payment Procedures

Procedures

- We also obtained a vendor history report for the same periods and selected a sample of vendors with total payments for the year over $10,000 and requested and reviewed the available documentation for bidding.

- For each vendor selected for procurement testing, we performed the following procedures:
  1. Examined quote or bid documentation, as appropriate based upon purchasing policy.
  2. For vendors which were not bid, we reviewed the supporting documentation for the reason the purchase was not bid (if any)

Results of Procedures Performed

The results of the review and testing performed is as follows:

Policies and Procedures Review

Cash Disbursements

CD-1 Condition

We noted the checks are returned to the accounts payable clerk after signing to be mailed.

Recommendation

In order to properly segregate duties, we recommend that checks be processed and mailed by someone other than the account payable clerk. If fraud was occurring, this would prevent checks to fictitious vendor checks from being removed before being mailed.

Payroll

PR-1 Condition

Although, initially all the pay rates are entered by the Personnel Department, we noted that payroll clerk can make change to employee rates. The payroll clerk makes updates to rates for any changes occurring after the initial entry by the Personnel Department.
Procurement and Payment Procedures

Recommendation

In order to properly segregate duties, we recommend that the payroll clerk be restricted from the ability to change employee rates and that all rate changes be entered by the personnel department.

If it is determined that restricting the payroll clerks access to rates would impact workflow to an unacceptable level, we recommend that, if available, a payroll change report (from the payroll system) be generated after every payroll and that it be reviewed by the Personnel Director.

Procurement

PP-1 Condition

We noted that Region, Easton and Redding jointly purchase certain items such as IT equipment and supplies.

Recommendation

We recommend that the Region, Easton and Redding research what other items or services can be jointly purchased to create efficiencies and cost savings. We recommend that jointly a formal joint purchasing policy be develop and implemented. Both the Towns of Redding and Easton could also be included in the evaluation.

Cash Disbursement Testing

The resulting of our testing is detailed on Exhibit 1.

CD-2 Condition

We noted that the purchase orders were stamped as paid, but the vendor invoices were not properly cancelled.

Recommendation

We recommend that vendor invoices be cancelled with the paid stamp to prevent duplicate payments.

CD-3 Condition

We noted that the lease payments are charged to an account named “Equipment Instructional” along with all other property and equipment purchases.
Procurement and Payment Procedures

Cash Disbursement Testing

Recommendation

We recommend that lease payments be recorded in a separate account from other equipment to allow for monitoring and proper accounting of capital lease payments.

Payroll

Payroll transaction testing was completed without exception

Procurement

The results of our testing is presented on Exhibits 2A and 2B

PP-2 Condition

We noted that certain services were not bid in accordance with the approved purchasing policy. The reason provided for these services was that the vendor had previously perform these or related services and was in the best position to address the problems. In another instance, the services were deemed emergency and no quotes or bids were obtained.

Recommendation

We recommend that the bid policy be updated to address and including specifics regarding the ability to waive bidding when it is in the best interest of the Board of Education. This bid waiver policy should include the types of situation that it would apply to, levels of approval and a form to document the waiver.

PP-3 Condition

We noted that certain vendor's aggregated annual expenditures exceeded the Board’s purchasing policy, although each individual purchase was below the threshold. Exhibit 2B presents the listing of vendors who had aggregate purchases that were in excess of $10,000 for each fiscal year.

Recommendation

We recommend that the Board consider bidding goods and services that historically aggregate over the bid threshold. This could also be accomplished by selecting more than one vendor from the bidders and establishing an approved vendor list by service.
Procurement and Payment Procedures

PP-4 Condition

The boiler was replaced at Redding Elementary School in August 2016 (per note on purchase order). With respect to that transaction, we noted the following:

- **June 8, 2016:** Quote was received from the vendor for $89,705. There were no other bids or quotes obtained (see minutes below).

- **June 14, 2016:** A purchase order was approved by the Finance and Operations Director for $89,705 and e-mailed to vendor on June 15, 2016
  - A manual note on the purchase order stated that the work would be done by mid-August
  - The purchase order listed Redding Elementary School as the “send invoice to” vs Central Office.

- **October 4, 2016:** A budget transfer was approved by the Board of Education for $70,705 and the budget transfer amount recorded in the general ledger was $70,900 (difference of $195).

  The budget transfer that was approved in the minutes was recorded in the general ledger to the 400 object (purchased property services) vs being properly recorded as a building improvement in the 700 object (Property and Equipment replacement). The minutes do not indicate where the monies were transferred from (see below).

The relevant sections of the approved the minutes were as follows:

“Motion: move to add agenda item to continue discussion and possible action on the status of the RES boiler. Miller, Irwin. Approved. Unanimous.

Board members discussed action that should be taken on the RES boiler. Mr. Hoffman expressed concern that no other bids had been received on the project.

Motion: move that the Redding Board of Education approve the transfer of $70,705 to pay for a replacement boiler at Redding Elementary School. Miller, Irwin. Approved: 5:1. Mr. Hoffman opposed.

Motion: move that the Redding Board of Education ratify the purchase order to Ratick Combustion for $70,705 to replace the Redding Elementary School boiler. Miller, Irwin. Approved: 5:1. Mr. Hoffman opposed.”
Procurement and Payment Procedures

**PR-4 Condition (continued)**

- November 17, 2016: Date of the vendor invoice which included an additional charge of $4,855 for installation of combustion air fans including sheet metal work. This was for a specific item excluded in the quote.

**Observations**

- The purchase order was issued to the vendor before the budget transfer request was submitted to the Board for approval.
- The transfer request was not for the total amount of project. It is unclear from the minutes if Board was provided the contract amount or the contract for approval.
- Additional work was completed that was not included in the purchase order and this amount was incorrectly charged back to the 2016 fiscal year.
- It is unclear why the vendor invoice would be addressed to the Redding Elementary School and not Central Office.

**Recommendations**

- Budget transfers should be made to the correct object to ensure proper reporting in the ED001. The boiler should have been charged to the property object not a repairs and maintenance line.
- Minutes should include clear and adequate details regarding the budget transfers. The details should include the amount, budget line the monies are being transfer to and the budget lines where the monies are transferred from.
- All vendor invoices should be required to be mailed to Central Office.
Fiscal Year End Budget Closing Procedures
Fiscal Year End Budget Closing Procedures

Objective

- Document the process and procedures for disposition of year end budget surplus, including identification, review and approval.
- Review accruals, encumbrances and payments recorded in May or June (last 2 fiscal years).
- Determine whether any payments or transfers after fiscal year-end were improperly attributed back to the prior fiscal year.
- Determine whether payments from accounts and transfers among accounts were appropriate and authorized. Review the procedures for identification, review and approval of such transfers.

Background

Year-end closing procedures include several different processes including the following:

- Encumbrances
- Accounts payable
- Budget transfers

Encumbrances

Encumbrances, when properly processed and approved, are a valid charge against the annual budget for unexecuted contracts. A valid encumbrance is a properly processed and approved purchase order to a valid vendor dated on or before June 30 of the fiscal year that the encumbrance is being charged to.

Accounts payable

Accounts payables are amounts that are owed to vendors for goods and services received by the Board before June 30.

Accounts payable amounts should be recorded before encumbrances. Therefore, an account payable amount would reduce the encumbrance amount if there was a purchase order for the transaction.

For financial reporting purposes, accounts payable and encumbrances are reported differently and therefore it is important to have separate detailed listing for each.
Fiscal Year End Budget Closing Procedures

Budget transfers

Budget transfers are governed by Connecticut General Statutes 10-222 and Board policy.

“Except as provided in this subsection, any such board may transfer any unexpended or uncontracted-for portion of any appropriation for school purposes to any other item of such itemized estimate.

Boards may, by adopting policies and procedures, authorize designated personnel to make limited transfers under emergency circumstances if the urgent need for the transfer prevents the board from meeting in a timely fashion to consider such transfer.

All transfers made in such instances shall be announced at the next regularly scheduled meeting of the board and a written explanation of such transfer shall be provided to the legislative body of the municipality or, in a municipality where the legislative body is a town meeting, to the board of selectmen.”

Definition in last paragraph of statute:

“Itemized estimate” means an estimate in which broad budgetary categories including, but not limited to, salaries, fringe benefits, utilities, supplies and grounds maintenance are divided into one or more line items.”

Itemize estimate equates to object level or the seven budget categories as defined in the Board of Education’s policy below.

The Board of Education’s transfer policy is as follows:

- The Superintendent, including those personnel designated by the Superintendent, is authorized by the Board to transfer funds within ("intra-category") any of the budget line items listed below except to fund an increase in staff.

- The Superintendent is likewise authorized to transfer funds between budget categories ("inter-category transfers"); however, all inter-category transfers in excess of $10,000 will require Board of Education approval in advance of such transfer except in emergency circumstances as defined below. The Superintendent will notify the Board of Education at the next regularly scheduled meeting of the Board of all transfers.

- The Superintendent is authorized by the Board to transfer funds up to $25,000 from any budget line item to any other budget line item, ("inter-category transfers") under emergency conditions, if the urgent need for the transfer prevents the Board from meeting in a timely fashion to consider such transfer. All transfers in excess of $25,000 will require Board of Education approval. All transfers made in such instances shall be communicated to the Board, will be submitted for approval at the next Board meeting, and a written explanation of such emergency transfer shall be provided to the Board of Selectmen.
Fiscal Year End Budget Closing Procedures

The current general ledger software has certain limitations regarding the accounting for accounts payable and open purchases orders (encumbrances). These limitations impacted our ability to test and reconcile encumbrances to the audited financial statements.

The software functions with a different independent database for each fiscal year’s activity. This requires that all prior year transactions be posted to the prior fiscal year’s database.

 Procedures

- We tested budget transfers throughout the year and at year end for proper approval.
- We tested purchase orders outstanding at June 30, 2016 and 2017 for proper processing and approval.
- We tested subsequent disbursements for both June 30, 2016 and 2017 to ensure that transactions were recorded in the proper period.
- We reviewed the policies and procedures for the approval and recording of budget transfers.
- We tested cash disbursements for proper account distribution as described above in the “Procurement and Payment Procedures Section”.

Results of Procedures Performed

The results of our procedures regarding the fiscal year closing procedures for disposition of any unexpended budget balances including encumbrances, accounts payable and year end budget transfers are as follows:

- The results of our testing of encumbrances is detailed on Exhibit 3
- The results of our testing of account payable (payments made subsequent to June 30) is detailed on Exhibit 4
- The results of our testing of budget transfers is detailed on Exhibit 5
Fiscal Year End Budget Closing Procedures

Encumbrances and Accounts Payable

**E-1 Condition**

For fiscal year 2016, we noted that certain encumbrances were charged to the 2016 budget that were not based upon a properly approved purchase orders dated prior to or by June 30, 2016.

**Recommendation**

We recommend that all encumbrances be properly supported by a properly processed and approved purchase order dated on or before June 30 to a valid vendor.

**E-2 Condition**

We selected transactions for testing from the open purchase order listings as of June 30, 2016 and June 30, 2017. Due to the software limitations as described above, we noted that some of the transactions selected for testing should have been properly reported as accounts payable, other purchase orders appear to have been cancelled (balance of utility and other accounts) and others were properly supported open purchase orders.

We were unable to reconcile the list of open purchase orders to the amounts reported as encumbrances in the Town’s financial statements.

It is our understanding, that a listing of all amounts paid from the old year database were provided to the audit firm as part the annual audit. Based upon the open purchase order report and the payment report, an adjustment was made to present the accounts payable balance and the encumbrance balances in the audit.

**Recommendation**

Since the general ledger software system does not appear to allow for the proper recording of accounts payable and updating of the open purchase balances for amount recorded as account payable, we recommend that this reconciliation be completed offline in an excel workbook. The workbook should begin with the open purchase order report at June 30 and then have columns to document the proper category based upon the subsequent transactions. The categories should be as follows:

- Accounts payable
- Encumbrances
- Cancelled encumbrances

It should be noted that encumbered balances at year end should be reduced by the amount of accounts payable. This classification is necessary for proper budgetary vs Generally Accepted Accounting Principles (GAAP) accounting.
Fiscal Year End Budget Closing Procedures

**E-3 Condition**

During our review of the open purchase order listing for June 2017, we noted a purchase order dated June 29, 2017 for $10,000 with the vendor being Redding Board of Education. A valid encumbrance requires that the purchase orders must be made out to valid vendor.

**Recommendation**

We recommend that any budget carryover request not supported by a purchase order be properly approved by the Redding Board of Finance.

**Budget Transfers**

**Results of Procedures Performed**

The results of our procedures are presented in Exhibit 5.

**BT-1 Condition**

During our testing, we noted that although it appears that the Board of Education is complying with the adopted Board budget transfer policy as it is written, the policy appears to include provisions that are in conflict with the Connecticut General Statute 10-222.

The Statute does allow Boards, by adopting policies and procedures, to authorize designated personnel to make limited transfers under emergency circumstances if the urgent need for the transfer prevents the board from meeting in a timely fashion to consider such transfer.

Although unclear, it has been my experience that the adopted policies relate only to “intra-category” transfers and not “itemized estimate” level defined in the Statute.

In addition, the Board’s policy has combined salary and benefits. In practice and in the Statutes and Department of Education reporting are treated as separate objects

**Recommendation**

We recommend that the Board update the budget transfer policy to best practices as follows:

- Revise the ability to transfer monies between objects to require prior Board approval (excluding emergency provision).
- Revise the policy to separate personal services (objects 100 and 200) into separate categories/objects, in order to align with the definition in the State Statutes and standard practice.
Fiscal Year End Budget Closing Procedures

**BT-2 Condition**

Although the budget in total was not overspent, in reviewing the June 30, 2016 and June 30, 2017 budget and actual expenditure report, we noted that for June 30, 2016, 55 budget lines show overspent and for 2017, 37 lines show overspent.

**Recommendation**

We recommend that budget transfers be properly approved and recorded in the general ledger to demonstration compliance with both the Board policy and State Statutes.
Grants
Grants

Objective

Determine whether amounts budgeted under grants legally fulfill the requirements and that all amounts expended are in accordance with the submission.

Background

Education grants have a specific line item budget approved by the State Department of Education. The majority of the grants received by the Redding Board of Education are federal pass-through monies.

Results of Procedures Performed

Based on our testing, amounts charged to the grants were allowable cost.

Condition

We noted that the documentation for the journal entry to reimburse the general fund for special education salaries, pupil services and transportation, lacked adequate detailed information with respect to documenting the proper charging of the amounts to the grant (allowable costs).

Recommendation

a. We recommend that the salaries and other grant expenditures be directly charged to the grants as paid.

b. For any reimbursements, we recommend that the documentation to reimburse the general fund include the following detailed information for salaries:

- Payroll week ending
- Employee name
- Total salary amount
- Amount reimbursed

c. We also recommend that the grants cash account be closed and the monies be deposited into the general fund or that the reimbursement be done on a month vs annual basis.
Special Education Grant
(SEDAC-G Form)
Special Education Grant (SEDAC-G Form)

OBJECTIVE

Review and investigate filings and internal review procedures with respect to state reimbursements for special services and determine why payment discrepancies existed.

BACKGROUND

The excess cost grant provided to the Town is a reimbursement grant for special education students with costs that exceed 4.5 times the District per pupil cost. The costs are reported and updated to the State Department of Education through the SEDAC G form/system. This grant is provided to the Town based upon the cost information entered into the system by June 30. Any errors in the cost information identified as part of the finalizing the form by September 1 each year or identified by during the audit process are adjusted by the State through the Education Cost Sharing Grant (ECS) in the subsequent year.

In fiscal year 2015, the costs reported on the SEDAC –G form were overstated. This resulted in the State Department of Education reducing the Town of Redding’s Educational Cost Sharing grant (ECS) by approximately $115,000. This amount was reimbursed to the Town by the District.

The District has experience turnover at the Special Education Director position over the past few years and therefore we were unable to obtain information regarding methodology or answer to certain questions about the cost charged.

PROCEDURES

We selected 2 students form the SEDAC - G form for detailed testing for fiscal years 2016 and 2017.

The District prepares a worksheet that documents the costs incurred to educate each student. The costs include salaries, vendor provided services, transportation costs and supplies. In most instances, the costs incurred are allocated to more than one student.

RESULTS

Based upon our testing we noted the following general conditions with respect to the documentation of the cost charged to each student tested:

- The supporting documentation for certain costs allocated to each student was incomplete or not adequate to be able to recalculate some of the cost charged.

- For the students tested, certain changes that occurred in the recommended levels of service or service providers were not updated on the students cost worksheets.
Special Education Grant (SEDAC-G Form)

RESULTS

- Transportation costs documentation provided by the transportation vendor (spreadsheet), but was not based upon or reconciled to actual invoices paid.

- In certain instances, the rates used to charge costs to students was the subsequent year’s rate.

RECOMMENDATIONS

We recommend that the Board of Education develop and implement formal procedures and related forms to properly document costs reported to the State Department of Education for SEDAC reporting as follows:

- Develop procedures and related forms to ensure that actual costs are reported on the SEDAC form.

- Develop procedures and related forms to properly track costs by student to be able to accurately report the costs to the State Department of Education. This should include identifications of changes in services provided and/or service providers as they occur.

- Vendors must be required to provide information detailing the students for which services were performed.

- Allocation methodologies must be formally documented and reviewed and approved by the Director of Finance. The allocation base and related unit of allocations should be clearly documented including but not limited to:
  1. Number of hours of service provided
  2. Number of days/weeks service provided
  3. Number of students who are charged for each service (name or ID number)
  4. Rates charges for each service (salary, hourly rate, etc.)
  5. Other allocations or calculations

- Costs be reconciled to the general ledger (transportation, supplies, OT/PT, etc.), where appropriate.

- The tracking forms and related reconciliations and final amounts to be reported on the SEDAC-G form must be reviewed and approved (from a financial perspective only) by the Director of Finance.
Review of Consultants
Review of Consultants

Objective

Prepare a listing of consultants hired by Central Office Administration. Determine what services they provide, what they were paid, and why the services were necessary.

Background

Certain vendors may provide both direct services and consulting services (ex. legal, actuary, benefits, etc.).

In reviewing the vendor list, we included vendors that may have provided either service.

Procedures

We obtained the vendor history report for fiscal year 2016 and 2017 and performed the following procedures:

1. We reviewed all vendors with total payments for the fiscal year over $3,000.

2. We then reviewed the vendors and noted the services they provide.

3. For vendors that we were unable to determine the services provided (vendors with individual names), we requested Central Office to provide us information about the services provided.

Results of Procedures Performed

We prepared a listing of consultants paid by the Board of Education. The results of our review is detailed on Exhibit 6. The description of the services column also indicates the purpose of the services.
Assessment of Staff Capabilities
Assessment of Staff Capabilities

**Objective**

Assessment of Central Office finance staff and capabilities.

**Procedures**

We noted our observations regarding other finance staff based upon our interaction with them as part of our detailed testing.

**Results of Procedures Performed**

Based upon our discussions regarding processes, requests for information, responses to our questions and other interactions the Director of Finance and Operations nothing came to our attention that caused a concern regarding assigned job responsibilities.

With respect to the other Central Office employees, based upon our discussions regarding processes, requests for information, responses to our questions and other interactions, nothing came to our attention that caused a concern regarding any employees assigned job responsibilities.
Duties of the Director of Finance
Duties of the Director of Finance

Objective

Determine and list the duties of Director of Finance.

Background

The Region recently hired a new Director of Finance and Operations. The job description for the position is included in this section.

Procedures

We reviewed the Easton, Redding & Region 9 Public Schools job description for the position of Director of Finance and Operations.

Results of Procedures Performed

Based on our review of the job description for the Director of Finance and Operations, we noted that it contains a very comprehensive list of responsibilities. It details the responsibilities that would be expected for this position, including review and monitoring of the financial operations, procurement federal, state and local reporting to grantor agencies.
Review of Policies and Procedures
Review of Policies and Procedures

Objective

Review of current policies and procedures in place for adequacy of internal controls and recommend improvements.

Background

The Board of Education’s policies and procedures were reviewed for each of the major transaction cycles. For transaction cycles that were included in our testing, any recommendation based upon our review included in that section of the report. The policies and procedure that we reviewed are as follows:

1. Cash disbursement   See Procurement and Payment section
2. Purchasing    See Procurement and Payment section
3. Payroll    See Procurement and Payment section
4. Bank reconciliations    This section
5. Cash receipts    This section
6. Budget transfers    See Fiscal Year End Budget Closing section
7. Journal entries    This section

Procedures

We interviewed the employee responsible for performing each of the functions noted above to document the policies and procedures. As noted above, we also tested certain areas as part of this project. For certain areas, we performed a walkthrough of the procedures as considered necessary.

Results

Based on our review of the Redding Board of Education’s policies and procedures we have the following recommendations for strengthening internal controls and upgrading procedures to best practices:

Bank Reconciliations

BR-1  Condition

Currently, the Accountant processes the cash disbursement for the grants fund and also prepares the bank reconciliations.

Recommendation

In order to properly segregate duties, we recommend that someone other than the employee who processes cash disbursements prepare the bank reconciliation.
Review of Policies and Procedures

JE-1  Journal Entries

Condition

During our testing we noted that purchase orders were used to document the recording of a journal entry (approval). For the items we selected for testing, adequate supporting documentation for the entry was not attached to the purchase order. We requested and reviewed the supporting documentation.

Although the Board of Education has a journal entry form, based upon discussion it is not regularly used.

Recommendation

We recommend that a standard journal entry form be used to document all journal entries. Supporting documentation should be attached to the form for approval by the Director of Finance and Operations before the entry is entered into the general ledger.
Other Observations

Capital Purchases

O-1 Condition

During our testing we noted that there was a large amount of capital assets purchased from the Board of Education budget.

Recommendation

We recommend that if the Board of Education does not have a formal 10-year capital plan that the Board of Education consider developing such a plan to be able to project and manage future capital needs.

Preschool Tuition

O-2 Condition

We noted that preschool tuition cash receipts are recorded as a credit to expenditures in the general ledger. The Board of Education budget also presents the tuition as a credit against salaries.

Recommendation

GAAP requires that all activity be recorded on a gross basis (revenue and expenditures).

We recommend that the revenues and expenditure for the preschool program be properly recorded in a special revenue fund.

Payroll Check Distribution

O-3 Condition

We noted that a courier delivers the payroll checks/stubs to the secretary at Easton Schools. There is no receipt or sign off to document the chain of custody.

Recommendation

We recommend that the secretary sign off for receipt of the payroll checks.
Other Observations

Payroll

O-4 Condition

During our testing we noted that hourly employees are paid by creating an estimated annual salary based upon the employee’s approved rate and expected total hours. Employees are docked for missed time.

Recommendation

We recommend that that the Board of Education review this practice against CT Department of Labor standards.

Medical Self-Insurance Fund

The medicals insurance fund contribution is budgeted based upon estimates provided by the District insurance consultant for each of the three entities. Each of the respective Board of Education approves the budget as part the total budget. The amount budgeted is then contributed to the medical insurance fund to pay for medical claims.

O-5 Condition

We noted that in previous fiscal years the Board of Education voted to contribute additional monies to the medical self-insurance fund

Recommendation

Based upon our review of the status of the fund based upon the June 30, 2017, we noted the following:

- The net position was at 25.56% of claims.
- There is no aggregate stop loss but there is an individual stop loss of $175,000.
- Industry practice does vary, but it is common to have aggregate stop loss over 125% of expected claims
- The current level of net position approximates that amount but further data and analysis regarding the plan demographics and experience would be required to recommend a specific level of net position (equity).

We recommend that the Board of Education develop and implement a formal policy regarding the targeted amount of net position.
Other Observations

School Rental Fund

O6 Condition

We noted that the facility use fees cash receipts are recorded as a credit to expenditures in the general ledger.

Recommendation

GAAP requires that all activity be recorded on a gross basis (revenue and expenditures).

We recommend that the revenues and expenditure for the preschool program be properly recorded in a special revenue fund as allowed by State Statutes.