

**CITY OF DERBY, CONNECTICUT
AGREED -UPON PROCEDURES
COMMUNICATION OF CERTAIN
SIGNIFICANT DEFICIENCIES
YEAR ENDED JUNE 30, 2018**





Guiding Successful People

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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Honorable Mayor,
Members of the Board of Alderman and
Members of the Board of Apportionment and Taxation
City of Derby, Connecticut

We have performed the procedures enumerated below, which were agreed to by, on Schedule of Findings and Questioned Costs as reported in our separate report for the City of Derby, Connecticut as of June 30, 2018 on the City's 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 dated March 22, 2019. City of Derby, Connecticut's management is responsible for the City's internal control over financial reporting and on compliance. The sufficiency of these procedures is solely the responsibility of City of Derby, Connecticut. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

1. Review the internal control deficiencies as reported in the Schedule of Findings and Questioned Costs as reported in our separate report issued on the City's 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 dated March 22, 2019.
2. Identify the findings that caused the restatement of general fund balance and fund deficiency.
3. Identify the party or parties required to make the correction

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the effectiveness of City of Derby, Connecticut's internal controls over financial reporting and on compliance. Accordingly, we do not express such an opinions or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely limited to the above procedures and is only a summary of the Schedule of Findings and Questioned Costs issued in our separate report on the City's 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 dated March 22, 2019 and **should be** read in conjunction with that aforementioned report. Accordingly, this communication is not suitable for any other purpose.

MAWC, LLC
Shelton, Connecticut
July 8, 2019

**CITY OF DERBY, CONNECTICUT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

I. FINANCIAL STATEMENT FINDINGS SUMMARY

Below is a summary of significant deficiencies that should be addressed as soon as possible. A full listing of findings follows this summary and exhibits. The significant deficiencies repeated from the prior years are marked with an asterisk.

***18-1 Double-Entry Accounting System**

Finding/Effect: The City does not use double-entry accounting for all funds.

Criteria: The use of a double-entry accounting software system, including the preparation of a balanced general ledger would improve the City's ability to detect accounting errors, provide the basis for monthly account and ledger reconciliations, and facilitate financial reporting for all Special Revenue Funds, Fiduciary Funds and its long-term debt and fixed assets.

Recommendation: We recommend that the City adopt a general ledger accounting software system for all funds and activities, including federal and state financial assistance funds.

What needs to be done first?

A review of the financial statements and all the individual fund trial balances needs to be maintained and kept in the Finance Director's office. All accounting should be processed utilizing an accounting package with a full set of balancing accounts by the Finance Director or under the supervision of the Finance Director. See City's Charter Sec. 33. See Exhibit A. The Board of Education's Business Manager should also utilize a set of self-balancing accounts for the operating and grant funds. Both should meet on a monthly basis to reconcile information and close the books monthly within a reasonable time after month's end.

Responsible

Party or Parties: The Finance Director is responsible for the overall accounting of the City as a whole. See Exhibit A of the City's Charter Sec. 33. The Business Manager is responsible for the accounting of the funds maintained by the Board of Education.

***18-2 Bank Reconciliations and Approval of Bank Reconciliations**

Finding/Effect: Bank reconciliations were not formally prepared during the year for general fund checking accounts.

Criteria: The Finance Department should be preparing the bank reconciliations and the Finance Director should formally approve the bank reconciliations on all City bank accounts.

Recommendation: We recommend that all bank reconciliations be prepared by the Finance department within a reasonable period of time after the month end. These reconciliations should then be

**CITY OF DERBY, CONNECTICUT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

reviewed by the Finance Director for accuracy and completeness. All accounting should be processed utilizing an accounting package with a full set of set balancing accounts by the Finance Director or under the supervision of the Finance Director.

What needs to be done first?

All funds should be established utilizing double entry accounting (See finding 18-1). All the bank reconciliations should be reviewed or performed in the Finance Director's office timely. This includes the all the bank accounts reported in the financial statements of the City. (i.e. Board of Education and Capital Project Funds) The Finance Director can not perform his duties without all the financial information.

Responsible

Party or Parties: The Finance Director is responsible for the overall accounting of the City as a whole. See Exhibit A of the City's Charter Sec. 33. The Business Manager is responsible for the accounting of the funds maintained by the Board of Education.

***18-5 Accounts Payable Cut-off-Board of Education**

Finding/Effect: The Board of Education's accounts payable were not properly recorded at year end on the City's general ledger. Account payable and accrued payroll in the amount of \$3,107,786 were incurred as of June 30, 2018 and were not properly recorded.

Criteria: Expenditures should be accrued when incurred in accordance with accounting principles generally accepted in the United States of America.

Recommendation: We recommend that accounts payable and accrued payroll be recorded when incurred on a monthly basis. A reconciliation with the City's general ledger and the Board of Education ledger should be done on a monthly basis to ensure that liabilities and expenditures are properly recorded.

What needs to be done first?

All funds should be established utilizing double entry accounting (See finding 18-1). Reports should be at months end and reconciled to detailed listings. Providing inaccurate open purchase order reports has a significant effect on the financial statements. Accounts payable and purchase orders should also be paid or lapse within a reasonable time after year end and the surplus, if any returned to the City's general fund. The Finance Director can not perform his duties without all the financial information.

Responsible

Party or Parties: The Finance Director is responsible for the overall accounting of the City as a whole. See Exhibit A of the City's Charter Sec. 33. The Business Manager is responsible for the accounting of the funds maintained by the Board of Education. See Exhibit B.

**CITY OF DERBY, CONNECTICUT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

18-6 Reconciliation of City and Board of Education

Finding/Effect: The Board of Education and City were not reconciled at year end. A prior period adjustment of \$2,634,603 was recorded as a reduction of the general fund balance.

Criteria: A formal reconciliation should be performed on a monthly basis to ensure agreement of the City's general ledger accounts with the Board of Education records.

Recommendation: We recommend that the Board of Education utilize the accounting system to reconcile cash, accounts receivable, accounts payable, deferred inflows of financial resources in addition to the income and expenditure ledgers that are already being utilized to have a complete self-balancing set of accounts. This will assist to quickly identify variances. That information should be timely shared between the City and Board of Education to ensure that both the City and Board of Education ledgers are in agreement.

What needs to be done first? All funds should be established utilizing double entry accounting (See finding 18-1). Next the Board of Education should submit a detailed listing of payment vouchers that are required to be made to the City by payee and source of funds. The cash transferred to the Board of Education bank accounts should agree with each individual voucher. This will make it easier for the City to Reconcile with the Board of Education. The Finance Director and Business Manager should meet on a monthly basis to reconcile the City's general ledger to the Board of Education accounts and outflows and close the books monthly within a reasonable time after month's end.

Responsible Party or Parties: The Finance Director is responsible for the overall accounting of the City as a whole. See Exhibit A of the City's Charter Sec. 33. The Business Manager is responsible for the accounting of the funds maintained by the Board of Education. See Exhibit B.

18-8 Budgeting

Finding/Effect: The City significantly overestimated grant revenues in the original budget. Approximately \$909,911 in grant monies were anticipated that was not received. The actual amount of the ECS-Alliance grant received during the fiscal year ended June 30, 2018 was \$1,036,699. These monies were paid to the Board of Education in the following fiscal year.

Criteria: The ECS-Alliance grant was budgeted as City revenue and did not have an off-setting appropriation. This resulted in a revenue shortfall of \$1,241,153. The Educational Cost Sharing Grant was budgeted for \$7,624,231 but only \$6,857,372 was actually paid by the State of Connecticut leaving a \$766,859 shortfall. The Private Colleges and Hospital Grant was budgeted for \$833,361 and \$690,309 was actually paid by the State of Connecticut leaving a \$143,053 shortfall. In addition, the ECS-Alliance grant monies that were received in the 2017-2018 fiscal year were not remitted to the Board of Education until subsequent to June 30, 2018.

**CITY OF DERBY, CONNECTICUT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Recommendation: We recommend that the City establish a separate special revenue fund for the educational grants. The grants monies should be remitted to the Board of Education within a reasonable period of time when received by the City.

What needs to be done first? Budgeting should be performed with every department presenting a detailed budget for their anticipated appropriation. Within the detailed budget should be various reasonable assumptions where each appropriation is derived. All departments should utilize similar assumptions and formats where possible. Each department should also have anticipated revenues, such as grants and charges for services, to arrive at a net department cost to be taxed. The department heads, including the Board of Education, should submit the detail of these calculations should be submitted to the Board of Apportionment and Taxation for their review in accordance with the City's charter. In addition, the regular monthly reporting submitted to the Board of Apportionment needs to be timely and accurate (See Finding 18-1, 18-2, 18-5, 18-6) to show significant variances to make informed decisions.

Responsible Party or Parties: Each individual department heads, Finance Director, Board of Apportionment and Taxation, Superintendent of School and Business Manager are responsible for their respective budgets. See Exhibit A Sec 28 and Exhibit C of the CGS section 10-222.

18-16 Comingling of Funds

Finding/Effect: The Board of Education maintains one cash account for operations and grant. The comingling of operational and grant monies makes it difficult if not impossible to reconcile with the City. Significant errors can occur and not be timely detected.

Criteria: A separate bank account should be maintained for grant income and expenditures in order to properly track inflows and outflows of grant monies. Assets such as grants receivable and liabilities such as deferred inflows and accounts payable should also be recorded and reconciled on a monthly basis.

Recommendation: We recommend that the Board of Education utilize the accounting system to reconcile cash, accounts receivable, accounts payable, deferred inflows of financial resources in addition to the income and expenditures for educational grants. In addition, we recommend moving the grant accounting from the General Fund to a Special Revenue Fund where it is better classified.

What needs to be done first? All funds should be established utilizing double entry accounting (See finding 18-1, 18-5, 18-6). Separate bank accounts bank account should be set up and maintained by funding source. This allows operational and grant monies to be accounted for with ease. This step should be done in conjunction with the aforementioned findings.

**CITY OF DERBY, CONNECTICUT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

Responsible

Party or Parties: The Business Manager is responsible for the accounting of the funds maintained by the Board of Education.

II. EXHIBITS

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the city; and such powers and duties which, on the effective date of this Charter were conferred by law. The form of all ordinances shall be as follows: "Be it ordained by the Board of Aldermen/Alderwomen of the City of Derby." No such ordinance shall take effect until the same has been published as may be required by, Connecticut General Statutes §7-157, as the same may be amended from time to time.

Board of Apportionment and Taxation.

Sec. 27. Generally.

The Board of Apportionment and Taxation shall consist of ten members who shall be elected and hold office as hereinafter provided. The Mayor of said city shall, ex officio, be a member of said Board of Apportionment and Taxation and shall preside at the meetings of the Board. Said Board shall elect one of its members as Chairperson to act in the absence of the Mayor. Seven members of the Board, exclusive of the Mayor, shall constitute a quorum, and the concurrence of seven votes shall be necessary for the transaction of business. The meetings of said Board shall be called by the Town/City Clerk on request of the Mayor or, in his/her absence, on request of the Chairperson of the Board. The Town/City Clerk shall be Clerk of said Board and shall make and keep true records of all the votes and proceedings of said Board, which shall at all reasonable times be open to public inspection and be preserved with the records of the city. No more than six persons of the ten persons elected as members of the Board of Apportionment and Taxation shall belong to the same political party. In such election, the winners shall be determined as under existing law with the following exception: The Town/City Clerk shall prepare a list of the candidates ranked from top to bottom according to the number of votes each receives; when the number of members of any one political party who would be elected exceeds six, only the candidates of such political party with the highest number of votes up to the limit of such maximum of six members shall be elected, and the names of the remaining candidates of such political party shall be stricken from the list. The remaining four members of said Board shall be elected from the next highest ranking candidates remaining on said list. Nothing contained herein shall be construed so as to prevent any elector from writing upon the ballot, in the space provided by law, the name of any person for such office.

Sec. 28. Powers and duties.

Said Board shall have authority to require different city officers to furnish all the information which they may possess and to exhibit all books, contracts, reports, papers and documents in their respective departments or in their possession requisite, in the opinion of said Board, to enable it to discharge the duties imposed upon it by this act.

Said Board shall lay such taxes as may be required upon the grand list of the city which shall have been made according to law next before the laying of such tax. Each Board of the city government and each officer of the city under whose control money is expended shall, on or before the first day of April in each year, submit to said Board an estimate of the amount of money required by such Board or such officer for the next ensuing year, giving details as far as practicable. Said Board, at a meeting thereof to be held in May in each year, shall prepare an estimate of the amounts required by each department of the city government for the ensuing year, giving particulars as far as possible, and recommending appropriations for all the city expenses for said year and shall cause such estimates forthwith to be published in a newspaper published in New Haven County and having a circulation in said city. Said Board shall hold a meeting in May in each year, and may adjourn the same from time to time to a day not later than the last business day of May and at said meeting or any adjournment thereof, it shall hear all parties who may desire to be heard relative to any alterations in such estimates and appropriations, and may make any alterations in such estimates and appropriations, and may make such additional appropriations as it shall deem proper. Said Board, having made such alterations as it may determine, shall prepare a statement of appropriations and tax rates which it proposes to make and levy. Said Board is authorized to make appropriations and lay taxes for all city purposes and for all other purposes required by law and may fix the time when any tax laid by it shall become due and payable. The Board of Apportionment and Taxation shall have no authority to make appropriations in excess of the revenues of the city for any year, and in no case shall the expenses of the city exceed its revenue for any year, except in cases and for purposes for which the city is authorized by special act of the General Assembly to issue bonds and when bonds are in fact so issued.

No money other than that appropriated as aforesaid shall be expended for any purpose unless a special appropriation therefor shall first be approved by seven votes taken by yeas and nays of the members thereof but said Board shall have no authority to make any such special appropriation unless the unappropriated revenues of the city are

for which such official is charged; and in case any official of said city shall contract any debt or obligation in the name of the city in excess of the appropriation made to be expended by such official, such official shall be liable upon his/her bond for the excess beyond the appropriation properly applicable thereto, and said city shall not in any case be liable for such excess.

Finance Director

Sec. 32. Generally.

The Mayor shall appoint a Finance Director, subject to the approval of the Board of Aldermen/Alderwomen. The Finance Director shall be paid an annual salary that is appropriate based upon qualifications, experience and performance, as adopted by the Board of Aldermen/Alderwomen. At a minimum, the Finance Director shall possess the following qualifications:

- (a). A bachelor's of science degree in the field of business, accounting, finance or such other related field, and either (1) at least seven years' experience in the field of finance or (2) at least five years' experience as a licensed Certified Public Accountant;
- or
- (b). A master's degree in business administration or such other related field, and at least five years' experience in the field of finance;

The Mayor may appoint an Assistant Finance Clerk who shall assist the Finance Director, and at the request of the Finance Director, perform the duties and exercise the authority of the Finance Director. In case of a vacancy in the office of the Finance Director, the Assistant Finance Clerk shall perform all necessary duties as the Finance Director until the Mayor shall fill such vacancy.

Sec. 33. Duties in General

The Finance Director shall be the chief fiscal officer of the City, and the head of the Finance Department. The Finance Director shall keep, in books provided for that purpose, accounts of each of the city departments with such city officers as may be designated by the Mayor, and such other accounts as the ordinances may provide for. Said Finance Director shall prescribe the form of all accounts and shall keep a separate account of each item of the appropriations and shall require all orders to state

specifically against which appropriations the order is drawn. Said Finance Director shall not allow any appropriation to be overdrawn or any appropriations for any other object or purpose to be drawn upon for one object or purpose or by any department other than that for which the appropriation was made. No order shall be issued unless sufficient funds to pay the same shall be in the treasury. If said Finance Director shall draw any order in payment of any bill, contract or claim in excess of the appropriation properly made therefor, the city shall not be liable for such excess but said Finance Director shall be personally liable therefor, and the sureties upon said Finance Director's bond shall be liable therefor to the amount of said Finance Director's bond.

Sec. 34. Responsibility for processing claims, etc., against city.

Each claim or account against the city shall be verified by the oath or affirmation of the claimant or his/her/its authorized agent, if required by the Finance Director, and also certified to be correct and due by the officer or Board by whom or under whose authority the same was contracted if contracted under the authority of any officer or Board. Such claim or account shall then be transmitted to the City/ Town Clerk who shall submit the same to the Finance Director. The Finance Director shall carefully examine the same and upon finding it correct, said Finance Director shall so certify and submit the same to the Finance Committee for approval. No bill shall be paid until approved by the Finance Committee in writing. If any claimant shall be indebted to the city, the Finance Director shall report such indebtedness to said Committee, together with the claim. Said Finance Director shall number the several claims when approved by the Finance Committee and enter them in books kept by said Finance Director for that purpose, and when any such claim shall have been so numbered and entered, the Finance Director shall draw said Finance Director's order on the Treasurer for the amount due and prepare a receipt in accordance therewith. No order shall be issued or delivered in payment of any claim until the same has been countersigned by the Mayor and by Finance Director or, in said Finance Director's absence, inability or at said Finance Director's request, by the President of the Board of Aldermen/Alderwomen, provided, in case of any interest for which the city is legally liable upon its bonds, the Finance Director may draw said Finance Director's order upon the Treasurer for the amount thereof, upon which order when countersigned by the Mayor, such interest shall be paid. When the identity of any claimant is doubtful; such claimant may be required to make oath or affirmation or furnish other evidence satisfactory to the Finance Director

that said claimant is the person or the legal representative of the person in whose favor such claim is made.

Sec. 35. Monthly financial report.

The Finance Director shall keep a correct account, under the supervision of the Mayor, of all receipts, and expenditures of the city during each fiscal year in proper books of account, arranged in such manner and under such heads or departments as to exhibit accurately and completely the financial condition of the several departments of the city, and said Finance Director shall report monthly to the Mayor the amount expended up to the period of such report by each head or department.

Health.

Sec. 36.

The Director of Health shall exercise within said city all the authority and shall be subject to all the duties conferred upon and required of Town/City Health Officers, Boards of Health or Health Committees of Towns/Cities. The compensation of such Director of Health shall be such reasonable amount as may be allowed by the Board of Aldermen/Alderwomen for his/her services and expenses. Pursuant to the Connecticut General Statutes, as the same may be amended from time to time, the City may enter into a health district which shall act as the City's Department of Health, and its Director shall act as the City's Director of Health.

Tax Collector.

Sec. 37. Generally.

The Tax Collector of said city shall hold his/her office until the first Monday in January, following the next biennial city election and until his/her successor shall be appointed and shall have qualified. He/She shall have all the authority and be subject to all the duties imposed by law on the Tax Collectors of towns/cities, and as soon as any tax shall have become due and payable, he/she shall collect such tax forthwith by authority of the provisions of as set forth in Connecticut General Statutes as the same may be amended from time to time and shall, within eighteen months after each unpaid tax, or the first installment thereof in case installment payments shall have been authorized, shall have become due and payable, exclusive of each lawful abatement which shall have been made under the provisions of the Connecticut General Statutes and amendments thereto,

Derby Public Schools - Monthly Grant Report

Derby Public Schools 2016-2017

	Orig Budget	Changes	Adj Budget	Mtd Expended	Ytd Expended	Encumbered	Balance	%Exp
	\$0.00	\$18,723.00	\$18,723.00	\$0.00	\$18,723.00	\$0.00	\$0.00	100.00%
Category 941	\$0.00	\$18,723.00	\$18,723.00	\$0.00	\$18,723.00	ED-11.1 \$0.00	\$0.00	50.00%
1-12-1200-207-41-604 Supplies Instructional IDEA Pre-	\$337.00	(\$337.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.00%
	\$337.00	(\$337.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.00%
Category 943	\$337.00	(\$337.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.00%
1-12-1100-201-61-604 Instruct Supplies After School PY	\$113.00	(\$113.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.00%
	\$113.00	(\$113.00)	\$0.00	\$0.00	\$0.00	\$6.00	\$0.00	0.00%
Category 961	\$113.00	(\$113.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.00%
1-12-1100-230-61-500 Other Purch Services PSD PY	\$26,092.00	\$0.00	\$26,092.00	\$0.00	\$26,092.00	\$0.00	\$0.00	100.00%
1-12-1100-230-61-730 Equipment Instructional PSD PY	\$15,000.00	\$0.00	\$15,000.00	\$0.00	\$15,000.00	\$0.00	\$0.00	100.00%
	\$41,092.00	\$0.00	\$41,092.00	\$0.00	\$41,092.00	\$0.00	\$0.00	100.00%
Category 962	\$41,092.00	\$0.00	\$41,092.00	\$0.00	\$41,092.00	ED-11.1 \$0.00	\$0.00	100.00%
Fund 12 Federal Grants - Carry-Over Year	\$41,542.00	\$93,268.00	\$134,810.00	\$4,099.21	\$134,057.47	\$752.53	\$0.00	59.11%
Grand Total for Report	\$2,689,118.29	\$2,789,769.71	\$5,478,888.00	\$1,370,650.68	\$4,874,111.96	\$413,796.94	\$190,979.10	63.95%

Category

5,287,908.90
FF-01.2

Reports provided to the auditor originally

Derby Public Schools - Monthly Grant Report

Derby Public Schools 2016-2017

		Orig Budget	Changes	Adj Budget	Mid Expended	Ytd Expended	Encumbered	Balance	%Exp
Category	941	\$0.00	\$18,723.00	\$18,723.00	(\$447.00)	\$18,276.00	\$0.00	\$447.00	48.81%
	1-12-1200-207-41-604 Supplies Instructional IDEA Pre-	\$337.00	(\$337.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.00%
		\$337.00	(\$337.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.00%
Category	943	\$337.00	(\$337.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.00%
	1-12-1100-201-61-604 Instruct Supplies After School PY	\$113.00	(\$113.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.00%
		\$113.00	(\$113.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.00%
Category	961	\$113.00	(\$113.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.00%
	1-12-1100-230-61-500 Other Purch Services PSD PY	\$26,092.00	\$0.00	\$26,092.00	\$0.00	\$26,092.00	\$0.00	\$0.00	100.00%
	1-12-1100-230-61-730 Equipment Instructional PSD PY	\$15,000.00	\$0.00	\$15,000.00	\$0.00	\$15,000.00	\$0.00	\$0.00	100.00%
		\$41,092.00	\$0.00	\$41,092.00	\$0.00	\$41,092.00	\$0.00	\$0.00	100.00%
Category	962	\$41,092.00	\$0.00	\$41,092.00	\$0.00	\$41,092.00	\$0.00	\$0.00	100.00%
Fund	12 Federal Grants - Carry-Over Year	\$41,542.00	\$93,268.00	\$134,810.00	\$902.60	\$130,860.86	\$3,415.82	\$533.32	58.87%
Grand Total for Report		\$2,624,477.29	\$2,849,404.71	\$5,473,882.00	\$125,412.71	\$3,628,873.99	\$1,427,625.25	\$417,446.72	60.75%

Correct report subsequently given to the auditor in 2019

Derby Public Schools - Monthly financial Report

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Derby Public Schools 2016-2017

Fiscal Year 2016-2017

	Orig Budget	Changes	Adj Budget	Mtd Expended	Ytd Expended	Encumbered	Balance	%Exp
Grand Total for Report	\$17,761,947.82	\$0.00	\$17,761,947.82	\$2,826,164.67	\$17,373,942.35	\$184,918.30	\$203,087.17	99.99%

Report originally provided to the auditor

Derby Public Schools - Monthly financial Report

Derby Public Schools 2016-2017

	Orig Budget	Changes	Adj Budget	Mtd Expended	Ytd Expended	Encumbered	Balance	%Exp
1-01-2510-720-40-814 Dues and Fees-Central Office	\$8,000.00	\$0.00	\$8,000.00	\$0.00	\$4,070.21	\$0.00	\$3,929.79	50.88%
814 Dues & Fees	\$31,500.00	(\$1,120.00)	\$30,380.00	\$0.00	\$16,799.50	\$0.00	\$13,580.50	55.30%
Category 801	\$31,500.00	(\$1,120.00)	\$30,380.00	\$0.00	\$16,799.50	\$0.00	\$13,580.50	57.41%
01 General Fund	\$17,761,947.82	\$0.00	\$17,761,947.82	\$243,840.76	\$14,791,618.44	\$2,757,990.18	\$212,339.20	99.99%

Correct report subsequently given to the auditor in 2019

Derby Public Schools - Monthly financial Report

Derby Public Schools 2017-2018

Fiscal Year 2017-2018

	Orig Budget	Changes	Adj Budget	Mtd Expended	Ytd Expended	Encumbered	Balance	%Exp
Grand Total for Report	\$18,389,806.00	\$0.00	\$18,389,806.00	\$159,390.63	\$18,174,165.49	\$187,216.74	\$28,423.77	99.99%

① Agrees to ED-03.0 line SE201.

② Agrees to ED-03.0 line SE202.

③ Agrees to ED-03.0 line SE203.

④

⑤ Agrees to ED-03.0 line SE205.

⑥ Agrees to ED-03.0 line SE206.

⑦ Agrees to ED-03.0 line SE207.

⑩ Agrees to ED-03.0 line SE210.

Ⓜ Agrees to ED-03.0 line SE110.

Ⓐ Agrees to line TR102.

Ⓑ Agrees to line TR302.

Ⓒ Agrees to line TR402

Ⓓ Adjustment needed for line TR501

Ⓔ Agrees to line TR602

✓ Agrees to local funding schedule

Reports originally provided to the auditor

01 General Fund

Derby Public Schools - Monthly financial Report

07/02/2018 08:08:22 AM

Derby Public Schools 2017-2018

Fiscal Year 2017-2018

	Orig Budget	Changes	Adj Budget	Mtd Expended	Ytd Expended	Encumbered	Balance	%Exp
Grand Total for Report	\$18,389,806.00	\$0.00	\$18,389,806.00	\$1,431,301.01	\$16,363,806.34	\$1,950,143.22	\$75,856.44	99.99%

Correct report subsequently given to the auditor in 2019

Derby Public Schools - Monthly Grant Report

08/27/2018 01:08:40 PM

Derby Public Schools 2017-2018

Fiscal Year 2017-2018

	Orig Budget	Changes	Adj Budget	Mtd Expended	Ytd Expended	Encumbered	Balance	%Exp
Category 962	(\$20,206.38)	(\$0.00)	\$20,206.38	(\$0.00)	(\$20,206.00)	(\$0.00)	(\$0.38)	99.99%
1-12-1203-231-41-510 PSD Summer School Transportation	\$4,261.30	(\$0.00)	\$4,261.30	(\$2,829.00)	\$4,261.00	(\$0.00)	(\$0.30)	99.99%
	\$4,261.30	(\$0.00)	\$4,261.30	(\$2,829.00)	(\$4,261.00)	(\$0.00)	(\$0.30)	99.99%
Category 964	(\$4,261.30)	(\$0.00)	\$4,261.30	(\$2,829.00)	(\$4,261.00)	(\$0.00)	(\$0.30)	99.99%
Fund 12 Federal Grants - Carry-Over Year	\$154,833.76	\$0.00	\$154,833.76	\$5,164.72	\$154,833.42	\$0.00	\$0.34	99.99%
Grand Total for Report	\$5,017,403.76	(\$753.00)	\$5,016,650.76	\$216,964.94	\$4,363,276.15	\$151,791.90	\$501,582.71	90.02%

- (A) Agrees to line SE101
- (B) Agrees to line SE102
- (C) Agrees to line SE103
- (D) Agrees to line SE105
- (E) Traced to line SE107, adjustment needed.
- (F) Agrees to line SE108
- (G) Traced to line SE109, adjustment needed.
- (H) Agrees to line SE110

(2) Agrees to line SE202

Reports originally provided to the auditor

Derby Public Schools - Monthly Grant Report

Exhibit B.2 07/02/2018 08:08:22 AM

Derby Public Schools 2017-2018

Fiscal Year 2017-2018

		Orig Budget	Changes	Adj Budget	Mtd Expended	Ytd Expended	Encumbered	Balance	%Exp
Category	962	\$20,206.38	\$0.00	\$20,206.38	\$0.00	\$20,206.00	\$0.00	\$0.38	99.99%
	1-12-1203-231-41-510 PSD Summer School Transportation	\$4,261.30	\$0.00	\$4,261.30	\$0.00	\$0.00	\$4,261.00	\$0.30	99.99%
		\$4,261.30	\$0.00	\$4,261.30	\$0.00	\$0.00	\$4,261.00	\$0.30	99.99%
Category	964	\$4,261.30	\$0.00	\$4,261.30	\$0.00	\$0.00	\$4,261.00	\$0.30	99.99%
Fund	12 Federal Grants - Carry-Over Year	\$154,833.76	\$0.00	\$154,833.76	\$1,983.56	\$144,554.08	\$7,956.44	\$2,323.24	99.99%
Grand Total for Report		\$5,017,403.76	(\$8,115.00)	\$5,009,288.76	\$281,713.28	\$3,422,059.62	\$852,562.20	\$734,666.94	85.47%

Correct report subsequently given to the auditor in 2019

Final Corrected

requiring any student enrolled in grades kindergarten to twelve, inclusive, to engage in physical activity as a form of discipline during the regular school day. For purposes of this section, "school employee" means (1) a teacher, substitute teacher, school administrator, school superintendent, guidance counselor, school counselor, psychologist, social worker, nurse, physician, school paraprofessional or coach employed by a local or regional board of education or working in a public elementary, middle or high school; or (2) any other individual who, in the performance of his or her duties, has regular contact with students and who provides services to or on behalf of students enrolled in a public elementary, middle or high school, pursuant to a contract with the local or regional board of education.

(P.A. 13-173, S. 3; P.A. 18-15, S. 7.)

History: P.A. 13-173 effective July 1, 2013; P.A. 18-15 added "school counselor", effective July 1, 2018.

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Sec. 10-221v. Confidential rapid response team re suspected abuse or neglect. Not later than January 1, 2016, each local and regional board of education shall establish a confidential rapid response team to coordinate with the Department of Children and Families to (1) ensure prompt reporting of suspected abuse or neglect, as described in section 46b-120, or sexual assault pursuant to the provisions of section 53a-70, 53a-70a, 53a-71, 53a-72a, 53a-72b or 53a-73a against a victim, as described in subdivision (2) of subsection (a) of section 17a-101a, and (2) provide immediate access to information and individuals relevant to the department's investigation. The confidential rapid response team shall consist of a teacher and the superintendent employed by the board of education, a local police officer and any other person the board of education deems appropriate. The department, along with the multidisciplinary team established pursuant to section 17a-106a, shall take immediate action to investigate and address each report of child abuse or neglect reported in any school.

(P.A. 15-205, S. 9.)

History: P.A. 15-205 effective July 1, 2015.

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Sec. 10-222. Appropriations and budget. Each local board of education shall prepare an itemized estimate of the cost of maintenance of public schools for the ensuing year and shall submit such estimate to the board of finance in each town or city having a board of finance, to the board of selectmen in each town having no board of finance or otherwise to the authority making appropriations for the school district, not later than two months preceding the annual meeting at which appropriations are to be made. The board or authority that receives such estimate shall, not later than ten days after the date the board of education submits such estimate, make spending recommendations and suggestions to such board of education as to how such board of education may consolidate noneducational services and realize financial efficiencies. Such board of education may accept or reject the suggestions of the board of finance, board of selectmen or appropriating authority and shall provide the board of finance, board of selectmen or appropriating authority with a written explanation of the reason for any rejection. The money appropriated by any municipality for the maintenance of public schools shall be expended by and in the discretion of the board of education. 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. Expenditures by the board of education shall not exceed the appropriation made by the municipality, with such money as may be received from other sources for school purposes. If any occasion arises whereby additional funds are needed by such board, the chairman of such board shall notify the board of finance, board of selectmen or appropriating authority, as the case may be, and shall submit a request for additional funds in the same manner as is provided for departments, boards or agencies of the municipality and no additional funds shall be expended unless such supplemental appropriation shall be granted and no supplemental expenditures shall be made in excess of those granted through the appropriating authority. The annual report of the board of education shall, in accordance with section 10-224, include a summary showing (1) the total cost of the maintenance of schools, (2) the amount received from the state and other sources for the maintenance of schools, and (3) the net cost to the municipality of the maintenance of schools. For purposes of this subsection, "meeting" means a meeting, as defined in section 1-200, and "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.

(1949 Rev., S. 1480; P.A. 78-218, S. 147; P.A. 82-217; P.A. 84-484, S. 1, 2; P.A. 98-141, S. 1, 2; P.A. 12-116, S. 16; P.A. 13-60, S. 1.)

History: P.A. 78-218 simplified phraseology by specifying applicability of provisions to local boards, substituting "municipality" for "city, town or school district" and making other technical changes; P.A. 82-217 inserted provisions relating to supplemental appropriations; P.A. 84-484 inserted Subsec. indicator and added new Subsec. (b) re development of a financial information system to assist boards of education in reporting budget data; (Revisor's note: In 1995 the Revisors editorially substituted the numeric indicators (1), (2) and (3) for (a), (b) and (c) at the end of Subsec. (a) for consistency with statutory usage); P.A. 98-141 amended Subsec. (a) to add provisions re limited transfers in emergency circumstances and to define "meeting", effective July 1, 1998; P.A. 12-116 deleted former Subsec. (b) re financial information system and made a conforming change, effective May 14, 2012; P.A. 13-60 added provisions authorizing board or authority to make spending recommendations, requiring board of education to provide written explanation of reasons for rejection of recommendations and for transfers of funds and defining "itemized estimate".

Cited. 115 C. 158. Estimates should be itemized so as to indicate whether or not proposed expenditures are for purposes as to which board of education has duty or independent discretion. 127 C. 351. Under section and provisions of charter, Bridgeport board of education has full discretion as to expenditures of money appropriated for school purposes. 133 C. 415. If board of finance properly exercises its discretion and budget is approved by town, board of education has no power to exceed appropriations made. 138 C. 521. Board of finance cannot place funds for school purposes in general government budget to be paid to school board on happening of certain contingencies. 151 C. 1. Cited. 152 C. 568; 162 C. 393; 163 C. 537; 174 C. 522; 182 C. 253; 217 C. 110; 228 C. 699.

**CITY OF DERBY, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

III. FINANCIAL STATEMENT FINDINGS

Our separate report issued on the City's 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 dated March 22, 2019 identified the following findings:

***18-1 Double-Entry Accounting System**

Finding: The City does not use double-entry accounting for all funds.

Criteria: The use of a double-entry accounting software system, including the preparation of a balanced general ledger would improve the City's ability to detect accounting errors, provide the basis for monthly account and ledger reconciliations, and facilitate financial reporting for all Special Revenue Funds, Fiduciary Funds and its long-term debt and fixed assets.

Condition: The City does not maintain a double-entry accounting system or process a general ledger utilizing an accounting software system for all Special Revenue Funds, Fiduciary Funds and its long-term debt and fixed assets.

Cause: The financial activity is maintained annually on ledger sheets for most of these funds and for others the only sources of documentation are canceled checks and bank statements

Effect: The City does not have the ability to detect accounting errors, provide the basis for monthly account and ledger reconciliations, and prepare meaningful financial reports.

Recommendation: We recommend that the City adopt a general ledger accounting software system for all funds and activities, including federal and state financial assistance funds. The use of a double-entry accounting software system, including the preparation of a balanced general ledger would improve the City's ability to detect accounting errors, provide the basis for monthly account and ledger reconciliations, and facilitate financial reporting. The Chart of Accounts, developed for the General Fund, should be utilized for the other funds of the City to ensure consistency with account names and numbers and to develop an internal reporting package.

***18-2 Bank Reconciliations and Approval of Bank Reconciliations**

Finding: Bank reconciliations were not formally prepared during the year for general fund checking accounts.

Criteria: The Finance Department should be preparing the bank reconciliations and the Finance Director should formally approve the bank reconciliations on all City bank accounts.

Cause: Lack of formal procedures.

**CITY OF DERBY, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Effect: Possible material errors could occur and not be detected timely.

Recommendation: We recommend that all bank reconciliations be prepared by the Finance department within a reasonable period of time after the month end. These reconciliations should then be reviewed by the Finance Director for accuracy and completeness.

***18-3 Availability of financial information**

Finding: During the audit process, information from various departments related to numerous audit schedules and related information was unavailable in a timely manner. The City's audit for the year ended June 30, 2018 did not start until October 2018. In addition, some schedules and required information were not available for audit until March 2019.

Criteria: Information related to financial statements should be presented at the close of the fiscal year or at a reasonable time thereafter.

Cause: Lack of year-end closing procedures.

Effect: The timely availability of information related to the financial statements has delayed the completion of the audited financial statements and other submissions that rely upon the audited financial statements.

Recommendation: The preparation of information relative to the financial statements in accordance with the City of Derby, Connecticut's reporting requirements should be provided in a timely manner. Schedules, reports and other financial information related to the City's financial condition as a whole should be maintained monthly throughout the year, forwarded to the Finance Department when that information becomes available and reconciled to the books and records of the City. A review of the financial statements should be done by accounting personnel to determine that all schedules and records are provided timely.

**CITY OF DERBY, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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***18-4 WPCA Purchase Order Approval Process**

Finding: The bookkeeper performed recordkeeping, custodial and approval functions.

Criteria: The WPCA should have adequate segregation of duties and responsibilities in order to assure the safeguarding of assets and the proper preparation of financial statements.

Cause: The WPCA (Agency) did not have adequate segregation of duties and responsibilities in order to assure the safeguarding of assets and the proper preparation of financial statements. Certain functions, such as receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks, to provide the necessary checks and balances of the Agency's internal control, are performed by the same individual. This lack of segregation of duties results in inadequate financial control over the operation of the Agency.

Effect: Lack of segregation of duties may lead to errors, or improprieties could occur and go undetected.

Recommendation: We recommend that the WPCA consider assigning additional personnel, independent of the accounting function, to duties such as, receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks to provide the necessary checks and balances of the Agency's internal control. Consideration should also be given to utilizing the cash receipts procedure and the purchase order and cash disbursement process of the WPCA to compensate for the lack of personnel and segregation of duties in this Agency.

***18-5 Accounts Payable Cut-off-Board of Education**

Finding: The Board of Education's accounts payable were not properly recorded at year end on the City's general ledger.

Criteria: Expenditures should be accrued when incurred in accordance with accounting principles generally accepted in the United States of America.

Cause: Lack of monthly reconciliations with the City and Board Education ledgers.

Effect: Account payable and accrued payroll in the amount of \$3,107,786 were incurred as of June 30, 2018 and were not properly recorded.

Recommendation: We recommend that accounts payable and accrued payroll be recorded when incurred on a monthly basis. A reconciliation with the City's general ledger and the Board of Education ledger should be done on a monthly basis to ensure that liabilities and expenditures are properly recorded.

**CITY OF DERBY, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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18-6 Reconciliation of City and Board of Education

- Finding:** The Board of Education and City were not reconciled at year end.
- Criteria:** A formal reconciliation should be performed on a monthly basis to ensure agreement of the City's general ledger accounts with the Board of Education records.
- Cause:** No formal reconciliation process is being performed between the City and Board of Education on a monthly basis.
- Effect:** A prior period adjustment of \$2,634,603 was recorded as a reduction of the general fund balance.
- Recommendation:** We recommend that the Board of Education utilize the accounting system to reconcile cash, accounts receivable, accounts payable, deferred inflows of financial resources in addition to the income and expenditure ledgers that are already being utilized to have a complete self-balancing set of accounts. This will assist to quickly identify variances. That information should be timely shared between the City and Board of Education to ensure that both the City and Board of Education ledgers are in agreement.

*18-7 Cash Account Activity- General Fund Operating, Board of Education and Self Insurance Accounts

- Finding:** Various cash accounts had activity that was found not to be recorded or recorded in net amounts.
- Criteria:** All cash activity should be recorded in the City's general ledger.
- Cause:** Lack of policies and procedures.
- Effect:** Cash accounts were contained significant errors that were not corrected by the Finance Department timely.
- Recommendation:** We recommend that all cash transactions be reflected in the general ledger and that transactions are reported at their gross amounts. In addition, accounts that have separate bank statements have separate general ledger accounts. All cash accounts should be reconciled monthly and reviewed by the Finance Director.

18-8 Budgeting

- Finding:** The City significantly overestimated grant revenues in the original budget.
- Criteria:** The ECS-Alliance grant was budgeted as City revenue and did not have an off-setting appropriation. This resulted in a revenue shortfall of \$1,241,153. The Educational Cost Sharing Grant was budgeted for \$7,624,231 but only \$6,857,372 was actually paid by the State of Connecticut leaving a \$766,859 shortfall. The Private Colleges and Hospital Grant was budgeted for \$833,361 and \$690,309 was actually paid by the State of Connecticut

**CITY OF DERBY, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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leaving a \$143,053 shortfall. In addition, the ECS-Alliance grant monies that were received in the 2017-2018 fiscal year were not remitted to the Board of Education until subsequent to June 30, 2018.

Cause: The final budget was not adjusted/corrected during the year.

Effect: Approximately \$909,911 in grant monies were anticipated that was not received. The actual amount of the ECS-Alliance grant received during the fiscal year ended June 30, 2018 was \$1,036,699. These monies were paid to the Board of Education in the following fiscal year.

Recommendation: We recommend that the City establish a separate special revenue fund for the educational grants. The grants monies should be remitted to the Board of Education within a reasonable period of time when received by the City.

*18-9 Encumbrance System

Finding: The City departments are not fully utilizing the encumbrance system.

Criteria: The City's formal purchase order encumbrance system should be monitored to control its appropriation expenditures.

Condition: The City has a formal purchase order encumbrance system in place to monitor and control its appropriation expenditures. However, it appears that not all departments are fully utilizing the encumbrance system, and in some cases, purchase orders are dated subsequent to the invoice and check date.

Cause: Lack of monitoring of the purchase order system.

Effect: Purchase orders are not used on a timely basis and encumbrances are not placed on appropriation accounts.

Recommendation: For a fully effective purchase order system, all purchase orders should be prepared and approved prior to the actual date of ordering the goods or services. When this process is being utilized, appropriation expenditures, which may be over expended, will be flagged prior to any over expenditure.

*18-10 Special Assessments/Collection Efforts

Finding: Special Assessments are not actively collected.

Criteria: Special assessments for sewer and water are past due and there should be active collection in effect to reduce the amount of outstanding assessments.

Condition: The special assessments for sewer and water are past due and there are no active collection activities in effect to reduce the amount of outstanding assessments. In some cases, there is no information in the tax collector's office that states that the sewer and water hookup was

**CITY OF DERBY, CONNECTICUT
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made on certain properties.

Cause: Lack of formal collection activity.

Effect: Special assessments for sewer and water are not currently being collected.

Recommendation: We recommend that the City authorize legal counsel to investigate ways to enforce the collection of these past due assessments or obtain authorization for the City to write these assessments off as uncollectible.

***18-11 Interfund Transfers**

Finding: Interfund balances are not repaid timely.

Criteria: Interfund transfers had been made by the City primarily between projects in the Capital Projects funds and Enterprise Funds should be repaid on a timely basis.

Condition: Interfund transfers have been made by the City primarily between projects in the Capital Projects funds and Enterprise Funds. In some cases, the transfers were not repaid when the funds were available and interfund balances are outstanding at the balance sheet date.

Cause: No timely repayment procedures have been established.

Effect: Interfund transfers are outstanding for extended periods of time.

Recommendation: We recommend that all interfund transfers be repaid as soon as the funds become available and transfers be properly authorized by the appropriate board before being made.

***18-12 Compensated Absences-City**

Finding: There is no formal reconciliation of compensated absences.

Criteria: The City should established a policy of reconciling, on a regular basis or at year end, the departmental employees days for vacation, sick or personal leave to the payroll records.

Condition: Individual departments currently maintain compensated absence records for their departmental employees entitled to compensated absences as dictated by various union bargaining agreements

Cause: Individual departments currently maintain compensated absence records.

Effect: Lack of consistency of reporting compensated absences.

Recommendation: We recommend that the City establish a procedure for maintaining centralized records related to available used and unused vacation, sick and personal leave days to properly

**CITY OF DERBY, CONNECTICUT
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YEAR ENDED JUNE 30, 2018**

evaluate the liability for compensated absences. This process should include a summary of the bargaining agreement provisions related to the various employee categories to be used by the individuals who are summarizing the compensated absence data. This centralized record should be related to the employee history files as generated from the payroll system and should be reconciled to departmental records quarterly or semi-annually.

***18-13 Parking Authority**

Finding: Parking ticket revenues are not recorded on an accrual basis.

Criteria: The revenue from the parking tickets should be recorded on the general ledger when they are issued (accrual basis).

Condition: While the parking ticket system put in place in January of 1999 on a computerized parking ticket system appears to be working properly, the revenue from the parking tickets is not being recorded on the general ledger until the tickets are paid (cash basis) instead of when they are issued (accrual basis). Parking tickets deemed uncollectible are not being written off nor is there a formal procedure for the acting director to authorize such write-offs, although in some cases, the acting director alone is authorizing corrections and write-offs.

Cause: Lack of understanding by the bookkeeper.

Effect: Untimely recording of revenues from parking tickets.

Recommendation: We recommend that the City of Derby consider assigning additional personnel, independent of the accounting function to duties such as receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks, to provide the necessary checks and balances of the internal control system. Consideration should also be given to utilizing the cash receipts procedure of the General Fund of the City of Derby to compensate for the lack of personnel and segregation of duties in this Division. We also recommend that all checks be issued to an individual or a company as opposed to cash as the payee and that for all subcontractors paid in excess of \$600, that the appropriate 1099s be filed with the Internal Revenue Service.

***18-14 Revenues Classification**

Finding: Revenues were not properly recorded in their respective general ledger accounts

Criteria: Revenues should be classified in their budgeted general ledger accounts.

Cause: There is no review of the revenue accounts done on a regular basis.

Effect: Audit adjustments of \$2,341,878 were proposed to reclassify grant revenues. Improper assumptions can be made for budgeting revenues in future periods.

Recommendation: We recommend a review of the miscellaneous, grant and deferred revenue accounts prior to

**CITY OF DERBY, CONNECTICUT
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internal and external reporting of financial information.

***18-15 Accounts Receivable Cut-off**

Finding: Accounts Receivable were not recorded at year end.

Criteria: Revenues should be recognized in the accounting period in which they become available and measurable.

Cause: No review process of grants receivable at year end and improper coding of revenues during the year.

Effect: \$297,511 of accounts receivable in the general fund were not properly recorded at June 30, 2018.

Recommendation: We recommend that revenues be recognized in the accounting period in which they become available and measurable.

18-16 Comingling of Funds

Finding: The Board of Education maintains one cash account for operations and grant. The comingling of operational and grant monies makes it difficult if not impossible to reconcile with the City.

Criteria: A separate bank account should be maintained for grant income and expenditures in order to properly track inflows and outflows of grant monies. Assets such as grants receivable and liabilities such as deferred inflows and accounts payable should also be recorded and reconciled on a monthly basis.

Cause: Improper classification of grant funds.

Effect: Significant errors can occur and not be timely detected. Also see finding 18-05 and 18-06.

Recommendation: We recommend that the Board of Education utilize the accounting system to reconcile cash, accounts receivable, accounts payable, deferred inflows of financial resources in addition to the income and expenditures for educational grants. In addition, we recommend moving the grant accounting from the General Fund to a Special Revenue Fund where it is better classified.

***18-17 Federal and State Single Audit Schedules**

Finding: The Finance Department did not prepare a schedule of expenditures of federal awards and state financial assistance for the year ended June 30, 2018. These schedules are derived from federal and state grant awards received by the General Government and the Board of Education of the City. The Board of Education grant awards primarily are passed through

**CITY OF DERBY, CONNECTICUT
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the State Department of Education, while the City receives their grants primarily through the State Department of Housing and Urban Development, the State Department of Health and Human Resources, the State Department of Agriculture and the Office of Policy and Management. The preparation of these schedules of expenditures has, in the past, been made by the auditors, including decision making concerning the federal CFDA number, the pass-through entity number and the amount of federal and state expenditures incurred by the City for the fiscal year. The auditor then reports on the Schedules of Expenditures of Federal and State Financial Assistance and renders his opinion with respect to the compliance with laws, regulations, contracts and grants and with the City's internal control over compliance with requirements of the laws, regulations, contracts and grants.

- Criteria: The schedules of federal awards and state financial assistance are required to be prepared by the City.
- Cause: Lack of a staff member assigned to identify and obtain grant revenue and prepare the appropriate federal and state financial schedules.
- Effect: The auditor is preparing these schedules and auditing them.
- Recommendation: We recommend that the Finance Department and/or the Board of Education annually prepare the Schedule of Expenditures of Federal Awards and State Financial Assistance to be presented to the auditor for audit. The auditor can then render an opinion with respect to compliance with and internal control over compliance with laws, regulations, contracts and grants. This will provide the proper segregation of responsibilities over the preparation of the schedules and the rendering of an opinion of these schedules.

***18-18 Community Development Agency**

- Finding: The bookkeeper performs recordkeeping, custodial and approval functions.
- Criteria: The Community Development Agency should have adequate segregation of duties and responsibilities in order to assure the safeguarding of assets and the proper preparation of financial statements.
- Cause: The Community Development Agency (Agency) does not have adequate segregation of duties and responsibilities in order to assure the safeguarding of assets and the proper preparation of financial statements. Certain functions, such as receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks, to provide the necessary checks and balances of the Agency's internal control, are performed by the same individual. This lack of segregation of duties results in inadequate financial control over the operation of the Agency. Additionally, certain administrative expenses (wages, payroll taxes etc.) and the corresponding appropriation (revenue), paid by the City of Derby's General Fund, are not being timely recorded on the books of the Agency.
- Effect: Lack of segregation of duties may lead to errors, or improprieties could occur and go undetected.

**CITY OF DERBY, CONNECTICUT
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Recommendation: We recommend that the City consider assigning additional personnel, independent of the accounting function, to duties such as, receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks to provide the necessary checks and balances of the Agency's internal control. Consideration should also be given to utilizing the cash receipts procedure and the purchase order and cash disbursement process of the General Fund of the City of Derby to compensate for the lack of personnel and segregation of duties in this Agency. Additionally, procedures should be established to timely allocate and record certain administrative expenses on the books and records of the Agency to specific funds received for Community Development and various grant purposes.

* indicates that these findings are repeated from the previous year.