



**Report on Communication of Internal Control
Related and Other Matters Identified in the Audit**

Independent Auditors' Report

**City Council
City of West Haven, Connecticut**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances solely for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying recommendations, that we consider to be material weaknesses as defined above.

Additionally, we identified several matters that are opportunities to strengthen internal control, improve operating efficiency or upgrade policies and procedures to best practices. The "**Recommendations to Management**" that accompanies this report summarizes our comments and recommendations regarding those matters. This report does not affect our Federal and State single audit reports or our report on the financial statements dated May 28, 2024.

This report is intended solely for the information and use of management, the City Council, others within the entity and Federal and State awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

PKF O'Connor Davies, LLP

Wethersfield, Connecticut
May 28, 2024

City of West Haven, Connecticut

Recommendations to Management
For the Year Ended June 30, 2023

We present for your consideration our comments and recommendations relating to internal controls and other operating and administrative matters, which came to our attention during the course of our audit. Comments and recommendations being repeated from the prior year's audit are identified by an "*".

Material Weaknesses

1. Vendor approval – City*

Conditions

The City does not have a formal approval process for the addition of new vendors to the vendor file. In addition, the accounts payable clerk can enter new vendors as part of the processing of checks. This could result in unapproved vendors being hired and unauthorized payments to those vendors. Vendor files are not currently reviewed and approved on an annual basis.

Recommendations

We recommend that all updates to the vendor master file be formally approved before they are processed. We also recommend that the employee who processes cash disbursements be restricted from the ability to make any vendor master file changes.

2. Bank reconciliations – City

Conditions

The City did not perform bank reconciliations on a timely basis for certain accounts. Also, for certain accounts, the City did not complete the bank reconciliations prior to closing the general ledger for the year. Audit adjustments were required to record deposit activity for multiple funds for the entire fiscal year. A significant number of the unrecorded deposits were ACH payments.

Recommendations

We recommend the City develop and implement formal monthly bank reconciliation procedures that include review and recording of deposit activity in the month it was received. The process should include the required procedures and analysis to be performed and the timeline in which they must be performed and completed. The procedures should include detailed analysis, reconciliation, supporting schedules, and proper recording of identified reconciling items.

3. Segregation of Duties (Payroll) – City*

Condition

The City employees that process payroll have the ability to change employee pay rates. These employees also have the ability to update/edit employee master files, deductions and are set up as payroll super users with no restrictions.

In addition, the payroll register is not reviewed and approved prior to the payroll being processed.

Significant Deficiencies

Recommendation

The City should revise their policies so that incompatible responsibilities within the payroll process be segregated between employees. Only the Human Resource Department employees should be able to change employee rates and update the employee master file.

We also recommend that the payroll register be reviewed and approved prior to the final processing.

In addition, we recommend that a payroll change report be produced, reviewed and approved by the Human Resource Department to verify that all changes were authorized. The review and approval should be formally documented.

4. Segregation of Duties (Payroll) – Education Department*

Condition

The Education Department payroll clerk that processes payroll has the ability to change employee pay rates. The employee also has the ability to update/edit employee master files, deductions and is set up as a payroll super user with no restrictions.

Recommendation

The Education Department should revise their policies so that incompatible responsibilities within the payroll process be segregated between employees. Only the Human Resource Department employees should be able to change employee rates and update the employee master file.

In addition, we recommend that a payroll change report be produced, reviewed and approved by the Human Resource Department to verify that all changes were authorized. The view and approval should be formally documented.

Other Matters

City and Education

5. Tuition Revenue*

Condition

We noted that tuition revenue is recorded in General Fund expenditure accounts.

Recommendation

We recommend the Education Department record tuition revenue gross in a revenue account in accordance with generally accepted accounting principles.

City

6. General ledger maintenance

Condition

The City did not perform adequate reconciliation procedures to financial data prior to closing; consequently, the financial information was found to contain material misstatements that were corrected via the audit process for the following accounts:

- Taxes receivable
- Advance tax collections
- Accounts payable
- Retainage payable

With respect to accounts payable we noted that multiple invoices related to fiscal year 2023 were incorrectly charged to fiscal year 2024.

Recommendation

The City should develop and implement formal monthly and year-end closing procedures. The procedures should include the develop of a checklist to ensure that the completeness of the closing procedures performed. The process should include the required procedures and analysis to be performed and the timeline in which they must be performed and completed. The procedures should include detailed analysis, reconciliation and supporting schedules for all significant balance sheet accounts.

We also recommend that City develop and implement procedures to ensure that expenditures are recorded in the fiscal year in which the goods and services were received.

7. Bank reconciliations*

Condition

The review and approval of bank reconciliations is not formally documented.

In addition, the bank reconciliations included old outstanding items or general ledger reconciling items.

Recommendation

We recommend the review and approval of bank reconciliations be formally documented.

We also recommend the City review and address the old outstanding items and record the general ledger reconciling items in the software.

8. Journal Entries*

Condition

We noted that the review and approval of non-standard journal entries is not formally documented.

City (Continued)

Recommendation

We recommend the City implement procedures to have the non-standard journal entries reviewed and approved by someone other than the preparer and ensure the approval of journal entries is formally documented.

9. Bidding and Quote Documentation*

Conditions

During our testing, we noted the following:

- Bid documentation for certain projects could not be located.
- Quote documentation for certain purchases could not be located.
- Items purchased under State bid were not formally documented on the purchase order or voucher.
- Bid waivers were not obtained for emergency services and other purchases.

Recommendations

We recommend the following:

- Bid and quote documentation be filed in a secure location and retained in accordance with the State record retention requirements and/or applicable audit requirements.
- Items purchased under State bid or other similar cooperative purchasing collaboratives be formally documented on the purchase order to allow for proper review and approval.
- Bid waivers should be approved for emergency services and other purchases above the bid threshold.

10. City Clerk*

A. Condition

There are no unique separate logins for each City Clerk Department employee. All employees process transactions using the same login.

Recommendation

We recommend that each City Clerk Department employee be assigned a unique login ID and that the login be used for all transactions processed by that employee.

We also recommend that each employee log off after processing each transaction or when another employee will be responsible for processing transactions (break, lunches, etc.).

City (Continued)

B. Condition

Since the login is shared, all users have rights to void transactions.

Recommendation

We recommend the ability to void transactions be limited to certain designated employees or that the voided transaction receipts be printed, signed by the clerk completing the transaction and approved by the City Clerk on a daily basis. Approved voided transaction receipts should be retained in a separate file by the City Clerk for use in the monthly reconciliation process.

In addition, we recommend that the City Clerk produce the voided transaction report on a monthly basis and that individual voided transactions approved during that month be agreed to the report. Any discrepancies noted should be investigated and documented.

11. Tax Collector*

Condition:

We noted that voided transactions must be approved by a senior staff member, but there is no review and approval of a monthly void report by the Tax Collector to monitor compliance with the procedure.

Recommendation

We recommend that the ability to void transactions be limited to certain employees and that the available void report be run and approved by the Tax Collector on a periodic basis (monthly).

12. Cash Disbursements*

Condition

The Accounts Payable Analyst posts the invoices, prints the checks, and mails the checks.

Recommendation

We recommend that the employee printing the checks should not also mail the checks.

13. Capital Assets

Condition

The City does not have a formal policy or process to update the capital asset records for asset purchases or retired assets.

Recommendation

We recommend that the City implement procedures to ensure completeness of the City's capital asset purchases to be reported as additions in the capital asset software.

We also recommend the City, perform a physical inventory of their capital assets and delete any assets that have been disposed of or that are no longer in use. We recommend that a deletion policy and related form be developed and implemented to ensure that all asset disposals are properly approved and recorded.

City (Continued)

14. Pension Plans*

A. Condition

The Police Pension Plan and Allingtown Pension Plan investments are managed by separate investment advisors with separate investment strategies.

Recommendation

We recommend that the City consider evaluating whether there are any cost savings and efficiencies gained by consolidating investment managers and investment strategies.

We also recommend that the City review the current discount rate and investment strategy to ensure that the investment rates of return being used in the actuarial calculations are attainable over the long-term.

B. Condition

State Statutes require that when pension obligation bonds have been issued that the plan maintain a funded level of 100%. At June 30, 2023, the plan was funded at 70.66%.

Recommendation

We recommend the City comply with State Statutes with respect to funding the pension plan.

15. Alternative Investments*

Condition

Although the City has their investment manager monitor their pension investments, currently, there is no formal monitoring of the alternative investments by the City Finance Department and/or Pension Commission.

Recommendation

We recommend the City obtain and review the audit and quarterly reports for each of the alternative investments in the pension fund. The reports should be reviewed and the investments evaluated for consistency with the pension plan investment policy and objectives.

16. Billing Process*

Condition

Currently, there are several City departments that are either performing or managing billing and collections for various activities.

Recommendation

We recommend that the City centralize the departments' billing and collection processes to the Finance Department in order to ensure that all amounts due to the City are properly and timely recorded accounted for.

City (Continued)

17. Sewer Fund Revenue*

Condition

We noted that the sewer fund's service fee revenue is billed through the Public Works Department and revenue is recorded on a cash basis.

Recommendation

We recommend the City's Finance Department be responsible for billing the service fee revenue and recording the accounts receivable and revenue as billed on the accrual basis as required by generally accepted accounting principles.

18. Sewer Fund Expenditure Classification

Condition

We noted that the certain costs in the sewer fund are not charged to the proper expenditure account.

Recommendation

We recommend the City record the Sewer Fund's expenditures in the accounts with the corresponding budget in order to improve monitoring of budget and actual costs. We also recommend that capital projects be recorded in separate capital accounts or project code.

19. Police Outside Services Receivable

Condition

We noted that the police outside services receivable listing includes old outstanding customer balances and customers include various City departments that are not billed.

Recommendation

We recommend the City write off old outstanding receivable balances with the approval of City Council and implement a policy on managing bad debts. We also recommend that the City departments be excluded from the receivable listing if they are not billed, or enter all City police outside service activity as one customer for tracking purposes.

20. Purchase Orders*

Condition

We noted that the City does not track the spending of certain projects and has overspent on certain purchase orders.

Recommendation

We recommend the City implement a purchase order system to increase internal control over purchasing and cash disbursements.

City (Continued)

21. Grant Cash Management*

Condition

We noted that the grant expenditure reimbursement request process is not being performed on a timely basis.

Recommendation

We recommend the City implement procedures in order to prepare and submit the grant expenditure reimbursement request on a timely basis.

22. Grant Accounting

A. Condition

We noted that certain grant revenue is recorded in one fund and transferred out to other funds to spend.

Recommendation

We recommend the City charge expenditures directly to the grant fund.

B. Condition

We noted that certain grant projects reported more expenditures than the grant awarded.

Recommendation

We recommend the City implement formal review procedures to ensure that grants are not overspent and any excess expenditures over the grant award be properly reclassified.

23. Clean Water Fund*

Condition

We noted that the clean water fund project reimbursement requests are submitted at the end of the project.

Recommendation

We recommend the City request for reimbursement during the project.

24. Pooled Cash

Condition

Currently, the City uses interfund accounts to record transactions for funds that do not have a bank account.

Recommendation

We recommend that the City consider implementing pooled cash instead of using interfund accounts for funds that do not have a bank account.

Allingtown Fire Department Fund

25. Personnel Files*

Condition

The City Personnel Department does not maintain adequate personnel files and salary related documentation of the Allingtown Fire Department employees.

Recommendation

We recommend the City Personnel Department maintain the official personnel files for all City employees.

26. Capital Assets*

Condition

The Allingtown Fire Department does not have a formal policy or process to update the capital asset records for retired assets.

Recommendation

We recommend the Allingtown Fire Department, perform a physical inventory of their capital assets and delete any assets that have been disposed of or that are no longer in use.

We also recommend that a deletion policy and related form be developed and implemented to ensure that all asset disposals are properly approved and recorded.

27. Contingency Account*

Condition

We noted that the Allingtown Fire Department records expenditures directly to the unallocated contingency budget line account.

Recommendation

We recommend that the Allingtown Fire Department transfer amounts from the unallocated budget line to the appropriate budget line. This will allow for proper reporting of expenditures by department for proper financial reporting and to provide accurate data for budget monitoring and future budget development.

28. Pension Plan Investment Policy

Condition

We noted that the Allingtown Fire Department pension plan does not have a formal investment policy.

Recommendation

We recommend that the City develop a formal pension investment policy that defines the investment categories, allowable percentages including the investment in alternative investments.

Education Department

29. Journal Entries*

Condition

The Education Department journal entries that are prepared by the Business Manager are not reviewed and approved.

Recommendation

We recommend the Education Department implement procedures to have the non-standard journal entries reviewed and approved by someone other than the preparer and ensure the approval of journal entries is formally documented.

30. Education Department Internal Controls/Monitoring*

Condition

Currently, the Education Finance Office relies solely on one financial position, the Business Manager.

Recommendation

We recommend the Education Department consider an additional position in the Finance Office to allow proper cross training and back up of employee function and to improve internal controls and monitoring of financial activity and operations.

31. School Activity Funds*

A. Condition*

Various school activity fund accounting records are maintained on a manual basis and are not under general ledger control.

Recommendation

We recommend that all school activity accounts be maintained in general ledger software.

B. Condition*

One employee at each school is responsible for all aspects of cash receipts, cash disbursements, record keeping and accounting related to the school activity funds.

Recommendation

We recommend that the Education Department implement procedures to segregate the responsibilities related to the various functions and to add policies and procedures that require approvals for certain transactions and review of items such as bank reconciliations and general ledger activity reports.

Education Department (Continued)

C. Condition*

During our testing, we noted that cash receipt transactions did not have adequate documentation attached to be able to be reconciled to the amount deposited.

Recommendation

We recommend that the Education Department ensure that all deposits be supported by adequate supporting documentation to ensure completeness and provide adequate data for monitoring and reconciliations.

Also, the internal form used to document the cash receipt ("SAF Deposit/Payment") should include the type of payment received.

32. General Fund Budgetary Monitoring – Education Grants*

Condition

We noted that in some instances certain education grants are over expended during the year but are adjusted to the correct balances after year end.

Certain education expenditures are charged to education grants through journal entries from general fund expenditures.

Recommendation

We recommend that the education grants fund be properly monitored to ensure that they are not overspent. This will allow for proper monitoring and reporting of the general fund's budget status.

We also recommend that the education expenditures be charged directly to the education grants vs reclassified from the general fund using journal entries.

33. Budget Transfers*

Condition

Certain expenditure objects were over budget as budget transfers were not properly approved and recorded.

Recommendation

We recommend the Education Department perform budget transfers in accordance with State Statutes.

Education Department (Continued)

34. Capital Assets*

Condition

The Education Department does not have a formal policy or process to update the capital asset records for retired assets.

Recommendation

We recommend the Education Department perform a physical inventory of their capital assets and delete any assets that have been disposed of or that are no longer in use.

We also recommend that a deletion policy and related form be developed and implemented to ensure that all asset disposals are properly approved and recorded.

35. Grant Compliance – Certified Payroll Review and Approval

Condition

During our testing, we noted that the review and approval of certified payrolls was not documented.

Recommendation

We recommend the Education Department formally document the review and approval of certified payrolls from construction vendors in accordance with compliance requirements.

Best Practices

36. Investment Policy*

Condition

The City does not have a comprehensive investment policy that addresses all funds and the related allowable investments.

Recommendation

We recommend the City adopt a comprehensive investment policy that would assist management in effectively executing and monitoring investment activity. The policy should address all components of an effective policy including but not limited to:

- Investment objectives
- Standards of care
- Safekeeping and custody
- Suitability and authorization of investment
- Interest rate risk
- Credit risk
- Custodial credit risk
- Investment parameters
- Reporting and monitoring

37. City Council Approval*

Conditions

We noted the amount of suspense transfers was not formally documented in the City Council meeting minutes.

Recommendations

We recommend the total amount of suspense transfers be formally documented in the City Council minutes.

38. Financial System Permissions*

Condition

The employees who process payroll have permissions to various other functions including account payable, accounts receivable, general billing, purchase orders and system administration. It is unclear why these employees would need access to each of these modules or to some of the permissions in these modules.

Recommendation

We recommend the City review system permissions for all employees and reduce the permissions to the maximum permissions necessary to complete the employee job responsibilities.

Follow-up on Prior Year's Recommendations

The following comments and recommendations from the prior year's audit are not being repeated since the City has implemented procedures to address the recommendations or they were otherwise resolved:

- Grant Compliance – Certified Payroll: Certified payrolls were received from the construction vendors.