

Regional District #4 Board of Education

Regular Meeting

26 August 2019

Minutes

Attendance: Trisha Brookhart, Jane Cavanaugh, Lori Ann Clymas, Dr Rick Daniels, DG Fitton, Mario Gioco and Kate Sandmann.

Administration: Brian White, Dr Kristina Martineau and Kim Allen

This regular meeting was called to order at 6:00pm by Jane Cavanaugh

Capital Fund Audit

The findings of a forensic audit of the Capital Fund, conducted by retired Business Manager Charles Ward, were presented by Brian White and Kim Allen.

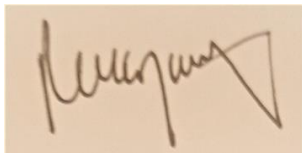
Mr. Ward conducted a review of the Capital Fund, beginning in 2005. He reviewed documentation of financial transactions and the Central Office team researched board of education minutes, in an attempt to determine the financial status of the fund.

Mr. Ward determined that the deficit in the fund was \$523,875, but could not determine where the money had been diverted to because of a lack of documentation in the financial records. The Central Office staff did not find BOE minutes that document the creation of the fund or all of the movement of money in and out of the fund.

The review will continue, in an attempt to find more information. The matter will be reconsidered at a future meeting.


There being no further business, a motion was made by Kate Sandmann and seconded by DG Fitton to adjourn this meeting. APPROVED 7-0.

This regular meeting was adjourned at 6:57pm.

A handwritten signature in dark ink on a light-colored rectangular background. The signature is cursive and appears to read 'Richard R. Daniels, Jr.'.

Richard R. Daniels, Jr

Secretary BOE



REGIONAL SCHOOL DISTRICT 4

2017-2018 CAPITAL FUND AUDIT REVIEW

BACKGROUND

- ▶ The 2017-2018 Region 4 Audit showed a \$199,261 deficit in the Capital Reserve Fund
- ▶ Region 4 Board Requested an in-depth audit of the history of the Capital Reserve Fund
- ▶ Consultant hired to work with Business Manager to conduct review

CAPITAL RESERVE FUND REVIEW

- ▶ Consultant hired – Charles Ward
- ▶ Business Manager and Consultant worked together to review records
- ▶ Reviewed records back to 2006
 - ▶ MUNIS Transactions Reviewed
 - ▶ Bank Statements Reviewed
 - ▶ Board Minutes Reviewed
 - ▶ Board Audits Reviewed
- ▶ Consultant Issued Report Memo
- ▶ Business Manager Implemented Changes to Increase efficiency and transparency for the Capital Reserve Fund

CAPITAL RESERVE FUND DEFICIT HISTORY

- ▶ Audits from 05/06 through 17/18 were reviewed and every audit contained a capital fund deficit.
- ▶ Review found deficits caused from a discrepancy between the cash account and the MUNIS records.
- ▶ Discrepancies found from use of Due/To accounting processes.
- ▶ The 17/18 deficit resulted in large capital purchase even though there was sufficient cash to cover purchase.
 - ▶ Due/To funds in the accounting records were larger than the amount of cash on hand.
- ▶ The 17/18 audit deficit was reduced because the Board approved the cash transfer of previous years' surplus deposits.

CAPITAL FUND REVIEW FINDINGS

- ▶ **No CASH is missing.**
- ▶ Appearance of cash deficit was caused by recording keeping.
- ▶ Deficit caused by using various accounting systems.
- ▶ We know the error is caused by bad record keeping because the actual cash is audited annually and no discrepancies found.
- ▶ The Due/To record keeping system creates liabilities between funds.

Date	6/30/2014	6/30/2015	6/30/2016	6/30/2017	Corrected 6/30/2017	6/30/2018	Reduce Due To By Land Transfer 6/30/2018
Assets							
Cash & Equivalents	458,911	459,140	459,370	459,648	459,648	324,614	324,614
Investments	0	0	0	0	0	0	0
Grant receivables from CT	0	0	0	0	0	0	0
Due from Other Funds	0	0	0	0	0	0	0
Inventories	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Total	458,911	459,140	459,370	459,648	459,648	324,614	324,614
Liabilities							
Accounts Payable	0	0	0	0	0	0	0
Accrued Payroll and benefits	0	0	0	0	0	0	0
Due to member Towns	0	0	0	0	0	0	0
Due to Other Funds	815,013	612,578	492,209	492,487	342,964	523,875	143,959
Deferred Revenue	0	0	0	0	0	0	0
BAN	0	0	0	0	0	0	0
Total	815,013	612,578	492,209	492,487	342,964	523,875	143,959
Unreserved Fund Balance (Deficit)	(356,102)	(153,438)	(32,839)	(32,839)	116,684	(199,261)	180,655

NEW FINDINGS

- ▶ Year-End Fiscal Year 2016-2017 Audit stated a \$32,839 deficit in the Capital Reserve Fund which was no change from the previous year's audit (2015-2016)
 - ▶ However, the fiscal year 2017-2018 audit's financial statements show a beginning balance \$116,684 in the Capital Reserve Fund
- ▶ The land purchase was reported as an asset in the Capital fund by the auditors.
 - ▶ The general fund (and not the capital fund) should have reported the asset.
 - ▶ This change in reporting just moves the deficit from the capital reserve fund to the general fund.

Outcomes/Next Steps

- ▶ Consistency in accounting methods is critical to transparency.
- ▶ Must utilize a cash accounting system so that both MUNIS accounting entries and cash bank account entries match.
 - ▶ Cash accounting system implemented for the 2019-2020 year.
 - ▶ All transactions must be Board approved for transparency.
- ▶ Review policies regarding transfer of funds and opening of new accounts
- ▶ Review practices in communicating with the Board and how things are brought to the Board for vote
- ▶ Review Findings
 - ▶ Continue implementation of new systems for better transparency and financial reporting.
 - ▶ Board must determine process to cover Capital Reserve Fund deficit.
- ▶ New Findings
 - ▶ Discuss land transfer to general fund with auditor.
 - ▶ Outstanding Due/To Liabilities need to be discussed with auditor moving forward to eliminate the discrepancy between cash and liabilities.

MEMO

From: Charles Ward

To: Kim Allen

Date: August 12, 2019

Re: Capital Sinking Fund Balance History

Period	Summary
June 30, 2006 to June 30, 2016	<p>The Capital Sinking Fund Balance was a negative \$5,515,743 on June 30, 2006 mostly reflecting unreimbursed and ineligible costs for the large construction projects that had been substantially completed.</p> <p>Then in FY 2008 and FY2011 the fund looks to have received State of CT Construction Grant reimbursements of \$1.8 and \$1.6 million. Also in FY 2011, a \$1.5 million note was floated. These \$4.9 million contributions along with a net infusion of \$600,000 from a variety of other sources resulted in the capital fund balance being reduced to \$32,839 on June 30, 2016</p>
June 30, 2016	<p>At this point in the time the Capital Sinking Fund had cash in bank of \$459,370 offset a by a \$492,209 due to Region 4's General Fund with a net capital fund deficit of \$32,839. So the Sinking Fund was essentially balanced another \$32,839 contribution from a General Fund Appropriation or allocation of a surplus would wipe the deficit out.</p>
July 1, 2016 to June 30, 2017	<p>The original Financial Statement showed no change in the deficit in FY2017. However the 2018 Financial Statement showed the actual fund balance in the Capital Sinking Fund at of June 2017 should have been a positive \$116,684. (I assume the 6/30/2017 Cash was correct – if so then the Due To amount should have been \$342,964).</p>
July 1, 2017 to June 30, 2018	<p>The major transaction here was the purchase of land for \$379,916 in August of 2018. Some of this came from the Cash on hand. Region 4 General Fund contributed \$123,732 from 16-17 surplus, \$78,523 from the 15-16 surplus, \$26,675 from 14-15 surplus plus \$15,000 from the 17-18 operating budget. That totals \$243,930 of the \$379,916 land purchase – the difference was made up by the cash balance in the fund.</p>
June 30, 2018	<p>So while the Capital Sinking Fund paid \$379,916 for the land, there was no recording of the purchase in the asset listing of the Capital Fund. The land purchase was recorded in the General Fund assets (See Page 10). That increase in assets should have been offset by a \$379,916 reduction in the Due to Other Funds in the Capital Sinking Fund which would change the balance in the Capital Sinking Fund from –a \$199,261 deficit to a \$180,655 surplus. It would also mean the General Fund would drop from a \$36,393 surplus to a \$343,523 deficit.</p> <p>This just changes the where the deficit shows. The total deficit across the General Fund, Capital Sinking Fund, Education Grants Fund, and School Cafeteria Fund of \$341,733 as shown on page 10 of the 2017-18 Financial Statements is unchanged by this action.</p>

Date	6/30/2006	6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
Assets								
Cash & Equivalents	889,558	719,371	636,425	59,430	56,725	1,482,372	85,074	507,753
Investments	53,604	83,889	86,995	87,839	88,049	61,890	0	0
Grant receivables from CT	0	0	0	0	0	0	0	0
Due from Other Funds	0	0	34,817	40,000	17,952	0	0	0
Inventories	0	0	0	0	0	0	0	0
Other	0	177,250	0	0	0	0	0	0
Total	943,162	980,510	758,237	187,269	162,726	1,544,262	85,074	507,753
Liabilities								
Accounts Payable	1,332,589	846,771	558,810	0	1,137	172,613	7,500	0
Accrued Payroll and benefits	0	0	0	0	0	0	0	0
Due to member Towns	0	0	0	0	0	0	0	0
Due to Other Funds	0	0	0	0	0	44,811	577,061	969,740
Deferred Revenue	0	0	0	0	0	0	0	0
BAN	5,126,316	5,816,066	4,000,000	4,000,000	3,890,000	2,223,000	0	0
Total	6,458,905	6,662,837	4,558,810	4,000,000	3,891,137	2,440,424	584,561	969,740
Unreserved Fund Balance (Deficit)	(5,515,743)	(5,682,327)	(3,800,573)	(3,812,731)	(3,728,411)	(896,162)	(499,487)	(461,987)
Total	943,162	980,510	758,237	187,269	162,726	1,544,262	85,074	507,753
Period Endings	6/30/2006	6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
Revenues								
Intergovernmental	453,998	0	1,817,597	0	0	1,612,790	36,991	0
Interest Income	54,909	33,302	62,059	2,144	0	0	0	0
Other	0	177,250	13,598	0	0	204,161	204,161	0
Total	508,907	210,552	1,893,254	2,144	0	1,816,951	241,152	0

Date	6/30/2006	6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
Assets								
Expenditures								
Capital Outlays	3,597,553	128,345	17,557	52,897	38,112	609,456	26,970	7,500
Other	0	276,360	24,690	0	18,595	0	0	0
Total	3,597,553	404,705	42,247	52,897	56,707	609,456	26,970	7,500
Net Revenue	(3,088,646)	(194,153)	1,851,007	(50,753)	(56,707)	1,207,495	214,182	(7,500)
Other Financing Uses								
Funds from (Repayment) of BAN	(4,000,000)					1,472,000	0	0
Transfer In		27,569	20,000	20,000	125,000	135,000	130,210	45,000
Bond Premium			10,747	18,595	16,027	17,754	52,283	
Other								
Net Change in Fund Balance	(7,088,646)	(166,584)	1,881,754	(12,158)	84,320	2,832,249	396,675	37,500
Fund Balance - Start	1,572,903	(5,515,743)	(5,682,327)	(3,800,573)	(3,812,731)	(3,728,411)	(896,162)	(499,487)
Fund Balance End	(5,515,743)	(5,682,327)	(3,800,573)	(3,812,731)	(3,728,411)	(896,162)	(499,487)	(461,987)

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Period Endings	6/30/2014	6/30/2015	6/30/2016	6/30/2017		6/30/2018	
Revenues							
Intergovernmental	4,885	141,622	5,262	0		0	
Interest Income	0	0	0	0		0	
Other	0	0	0	0		0	
Total	4,885	141,622	5,262	0		0	

Date	6/30/2014	6/30/2015	6/30/2016	6/30/2017	Corrected	6/30/2018	Reduce Due To
					6/30/2017		By Land Transfer
							6/30/2018
Assets							
Expenditures							
Capital Outlays	0	0	0	0		379,916	
Other	0	39,958	12,338	0		0	
Total	0	39,958	12,338	0		379,916	
Net Revenue	4,885	101,664	(7,076)	0		(379,916)	
Other Financing Uses							
Funds from (Repayment) of BAN	0	0	0	0		0	
Transfer In	101,000	101,000	127,675	0		63,971	
Bond Premium							
Other				0			
Net Change in Fund Balance	105,885	202,664	120,599	0		(315,945)	
Fund Balance - Start	(461,987)	(356,102)	(153,438)	(32,839)		116,684	
Fund Balance End	(356,102)	(153,438)	(32,839)	(32,839)	116,684	(199,261)	