

CITY OF NEW LONDON, CONNECTICUT

FEDERAL SINGLE AUDIT REPORT

JUNE 30, 2007

CITY OF NEW LONDON, CONNECTICUT

FEDERAL SINGLE AUDIT REPORT

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**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program, on Internal Control over
Compliance in Accordance with OMB Circular A-133
and on the Schedule of Expenditures of Federal Awards**

To the Members of the City Council
City of New London, Connecticut

Compliance

We have audited the compliance of the City of New London, Connecticut, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of New London, Connecticut's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of New London, Connecticut's management. Our responsibility is to express an opinion on the City of New London, Connecticut's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of New London, Connecticut's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of New London, Connecticut's compliance with those requirements.

In our opinion, the City of New London, Connecticut, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

The management of the City of New London, Connecticut, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of New London, Connecticut's internal control over compliance with the

requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of New London, Connecticut's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of New London, Connecticut, as of and for the year ended June 30, 2007 and have issued our report thereon dated July 14, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of New London, Connecticut's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the City Council, the Board of Finance, others within the City, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blum, Shapiro & Company, P.C.

July 14, 2008

CITY OF NEW LONDON, CONNECTICUT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

| <u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u> | <u>CFDA Number</u> | <u>Pass-Through Grantor's Number/ Project Number</u> | <u>Expenditures</u> |
|---|------------------------|--|---------------------|
| United States Department of Agriculture | | | |
| <i>Passed Through the State of Connecticut Department of Administrative Services:</i> | | | |
| Food Donation | 10.550 | | \$ 110,712 |
| <i>Passed Through the State of Connecticut Department of Education:</i> | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program | 10.553 | 12060-SDE64370-20508 | \$ 259,128 |
| National School Lunch Program | 10.555 | 12060-SDE64370-20560 | <u>1,034,361</u> |
| | | | 1,293,489 |
| Fresh Fruit & Vegetable Program | 10.582 | 12060-SDE64370-22051 | <u>53,464</u> |
| Total United States Department of Agriculture | | | <u>1,457,665</u> |
| United States Department of Education | | | |
| <i>Direct Programs:</i> | | | |
| FIE Fund for Improvement | 84.215k | | 75,517 |
| <i>Passed Through the State of Connecticut Department of Education:</i> | | | |
| Adult Education | 84.002 | 12060-SDE64370-20784 | 167,331 |
| Title I Grants to Local Educational Agencies | 84.010 | 12060-SDE64370-20679 | 1,264,743 |
| Special Education Cluster: | | | |
| Special Education - Grants to States | 84.027 | 12060-SDE64370-20977 | 1,190,408 |
| Special Education - Preschool Grants | 84.173 | 12060-SDE64370-20983 | <u>20,236</u> |
| | | | 1,210,644 |
| Vocational Education | 84.048 | 12060-SDE64370-20742 | 88,857 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | 12060-SDE64370-20873 | 50,664 |
| Education of Homeless Children and Youth | 84.196 | 12060-SDE64370-20770 | 30,310 |
| Even Start - State Educational Agencies | 84.213 | 12060-SDE64370-20682 | 102,607 |
| Twenty-First Century Community Learning Centers | 84.287 | 12060-SDE64370-20863 | 100,717 |
| State Grants for Innovative Programs | 84.298 | 12060-SDE64370-20909 | 22,587 |
| Education Technology State Grants | 84.318 | 12060-SDE64370-20826 | 81,948 |

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CITY OF NEW LONDON, CONNECTICUT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

| Federal Grantor/Pass-Through Grantor/ Program or Cluster Title | CFDA Number | Pass-Through Grantor's Number/ Project Number | Expenditures |
|--|------------------------|--|---------------------|
| Reading First State Grants | 84.357 | 12060-SDE64370-20854 | \$ 251,719 |
| English Language Acquisition Grants | 84.365 | 12060-SDE64370-20868 | 126,340 |
| Mathematics and Science Partnerships | 84.366 | 12060-SDE64370-21592 | 340,241 |
| Improving Teacher Quality State Grants | 84.367A | 12060-SDE64370-20858 | 395,956 |
| Emergency Impact Aid - Displaced Students Hurricane Katrina | 84.938C | 12060-SDE64370-22038 | 16,078 |
| BCAE Web Based Adult Diploma Program | 84.002 | 12060-BAA77200-20137 | 4,800 |
| Learn & Serve America K-12 School Base | 94.004 | 12060-SDE64370-20902 | <u>35,000</u> |
| Total United States Department of Education | | | <u>4,366,059</u> |
| Federal Emergency Management Agency | | | |
| <i>Direct Programs:</i> | | | |
| Assistance to Firefighters | 83.554 | | <u>21,836</u> |
| United States Department of Homeland Security | | | |
| <i>Passed Through the State of Connecticut Department of Emergency Management and Homeland Security:</i> | | | |
| Homeland Security Cluster: | | | |
| State Domestic Preparedness Equipment Support Program | 97.004 | 12060-EHS99530-21879 | \$ 43,542 |
| Homeland Security Grant Program | 97.067 | 12060-EHS99530-21877 | <u>1,220</u> |
| | | | 44,762 |
| Emergency Management Performance Grants | 97.042 | 12060-EHS99660-21881 | 5,590 |
| State Homeland Security Program (SHSP) | 97.073 | 12060-EHS99670-21877 | 2,275 |
| Nuclear Emergency Safety Fund | 97.004 | 12060-EHS99681-90428 | <u>25,196</u> |
| Total United States Department of Homeland Security | | | <u>77,823</u> |
| United States Department of Housing and Urban Development | | | |
| <i>Direct Programs:</i> | | | |
| CDBG - Entitlement and Small Cities Cluster: | | | |
| Community Development Block Grant/Entitlement | 14.218 | | 1,177,718 |
| Lead-Based Paint Hazard Control in Privately-Owned Housing | 14.900 | | <u>293,007</u> |
| Total United States Department of Housing and Urban Development | | | <u>1,470,725</u> |

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CITY OF NEW LONDON, CONNECTICUT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

| <u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u> | <u>CFDA Number</u> | <u>Pass-Through Grantor's Number/ Project Number</u> | <u>Expenditures</u> |
|---|------------------------|--|---------------------|
| United States Department of Justice | | | |
| <i>Direct Programs:</i> | | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | | \$ 22,049 |
| Enforcing Underage Drinking Laws Program | 16.727 | 12060-OPM20350-21674 | 17,689 |
| Forfeited Assets Fund | 16.000 | 12060-DPS32539-20493 | <u>28,852</u> |
| Total United States Department of Justice | | | <u>68,590</u> |
| United States Department of Transportation | | | |
| <i>Passed Through the State of Connecticut Department of Transportation:</i> | | | |
| Highway Safety Cluster: | | | |
| State and Community Highway Safety | 20.600 | 12062-DOT57533-20559 | \$ 33,036 |
| Alcohol Traffic Safety and Drunk Driving | 20.601 | 12062-DOT57533-22086 | <u>19,057</u> |
| | | | <u>52,093</u> |
| Election Assistance Commission | | | |
| <i>Passed Through the State of Connecticut Secretary of the State:</i> | | | |
| Help America Vote Act | 90.401 | 12060-SOS12500-21465 | <u>1,655</u> |
| National Endowment for the Humanities | | | |
| <i>Passed Through the State of Connecticut Commission on Culture and Tourism:</i> | | | |
| National Endowment for the Art | 45.025 | 12060-CAT45220-20328 | <u>2,500</u> |
| United States Department of the Navy | | | |
| <i>Direct Programs:</i> | | | |
| Naval Junior ROTC Program | 12.000 | | <u>50,339</u> |
| Total Federal Awards Expended | | | <u>\$ 7,569,285</u> |

CITY OF NEW LONDON, CONNECTICUT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Various agencies of the Federal Government have made financial assistance available to the City of New London, Connecticut. These grants fund several programs including housing, education, human services, transportation and general government activities.

Note 1 - **Summary of Significant Accounting Policies:**

The accounting policies of the City of New London, Connecticut, conform to accounting principles generally accepted in the United States of America as applicable to government entities. The following is a summary of the more significant policies relating to the aforementioned grant programs.

Basis of Accounting - The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of New London, Connecticut, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 - **Noncash Awards:**

Donated commodities in the amount of \$110,712 are included in the Department of Agriculture's Food Donation Program, CFDA #10.550. The amount represents the market value of commodities received.



Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Members of the City Council
City of New London, Connecticut

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of New London, Connecticut, as of and for the year ended June 30, 2007, which collectively comprise the City of New London, Connecticut's basic financial statements, and have issued our report thereon dated July 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of New London, Connecticut's internal control over financial reporting as a basis for designing our auditing procedures 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 City of New London, Connecticut's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of New London, Connecticut's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1, 2007-2, 2007-3 and 2007-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1, 2007-2 and 2007-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of New London, Connecticut's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of New London, Connecticut, in a separate letter dated July 14, 2008.

The City of New London, Connecticut's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of New London, Connecticut's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, the Board of Finance, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blum, Shapiro & Company, P.C.

July 14, 2008

CITY OF NEW LONDON, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

I. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes X no

Identification of major programs:

| CFDA # | Name of Federal Program or Cluster |
|---------|--|
| 84.010 | Title I Grants to Local Educational Agencies |
| 84.366 | Mathematics and Science Partnerships |
| 84.367A | Improving Teacher Quality State Grants |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

II. Financial Statement Findings

1. We issued reports, dated July 14, 2008, on internal control over financial reporting and on compliance based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

2. Our report on compliance indicated no reportable instances of noncompliance.
3. Our report on internal control over financial reporting indicated the following deficiencies in internal control over financial reporting:

2007-1 Capital Assets

Type of Finding: Material weakness in internal control over financial reporting.

Criteria: All general ledger accounts should be monitored and reconciled on a monthly basis.

Condition: Capital assets are not monitored or reconciled. There were various assets that were not being depreciated and others on which the depreciation calculation was not being done properly. There are no formal procedures to reconcile the capital assets. This also led, in part, to the delay in issuing the audit report by the December 31, 2007 deadline.

Recommendation: We recommend that a review of the capital asset system be performed. This software system should be used to its fullest and should be able to produce data for year-end reporting. If proper monitoring of the reports is done periodically, any discrepancies would be noted during the year, rather than at year end.

Management Response: The City intends to meet with its software provider to review the deficiencies in the way the City is utilizing its capital assets system. Particular attention will be placed on incorporating infrastructure values into the system. Periodic reviews will be undertaken. A review will be made of the deficiency of year-end reports.

2007-2 Board of Education Cash

Type of Finding: Material weakness in internal control over financial reporting.

Criteria: All general ledger accounts should be monitored and reconciled on a monthly basis.

Condition: Board of Education cash was not reconciled during the year. Most of the problems encountered within the area of cash can be avoided if a proper system of checks and balances is incorporated into the Board of Education procedures. This condition contributed, in part, to the delay in issuing the audit report by the December 31, 2007 deadline.

Recommendation: We recommend that all bank accounts be reconciled to the general ledger on a monthly basis and that all reconciling items be promptly investigated and adjusted. Furthermore, we recommend that documentation containing adequate explanations be retained to support all adjustments.

Management Response: The City has developed an electronic link between the City's accounting system and the education accounting system. The system will electronically transmit education expense data on a monthly basis to the City. This will enable City staff to reconcile education bank accounts on a monthly basis. This system became operational in June 2008 and will enable the City to remain current for 2008-09 forward. There remains the issue of balancing 2007-08 bank accounts, but progress is being made in balancing the bank accounts.

2007-3 Timely Reconciliation of Accounts and Closing of Fiscal Year

Type of Finding: Material weakness in internal control over financial reporting.

Criteria: All general ledger accounts should be monitored and reconciled on a monthly basis. All entities should have procedures in place to close their fiscal year within a reasonable time period after year end.

Condition: There was a significant delay in issuing the audit due to a number of general ledger accounts not being properly reconciled during the year. Accounting tasks such as monthly reconciliations play a key role in proving the accuracy of accounting data and information included in the financial statements.

Recommendation: We recommend that more effective review and reconciliation policies and procedures be established as a customary part of the accounting process. This would involve monthly reconciliations of all accounts, making adjustments throughout the year that have typically been made at year-end and performing more frequent reviews of the general ledger throughout the year.

Management Response: Due to the difficulties of reconciling education data to what the City has posted, there was limited time to do the review and reconciliation processes that were necessary. Once the City has the electronic link fine tuned, time should be available to do the monthly reconciliations that are necessary and to have a timely close-out of the fiscal year.

2007-4

Board of Education Reconciliation

- Type of Finding:** Significant deficiency in internal control over financial reporting.
- Criteria:** The Board of Education (BOE) should reconcile its subsidiary ledgers, General Fund and Grant Fund, to the City on a monthly basis.
- Condition:** There were discrepancies between the BOE expenditures total and the general ledger balance per the City's records. This reconciliation is required to ensure that the City's official books and records contain accurate and complete expenditures for the BOE.
- Recommendation:** We recommend that the BOE perform a monthly reconciliation with the City Finance Department. Furthermore, the reconciliation should be forwarded to the City to ensure the practice is being performed monthly.
- Management Response:** With the establishment of the electronic linking of the City and education accounting systems, a timely reconciliation of the education accounts should be able to be performed on a monthly basis.

III. Federal Award Findings and Questioned Costs

No findings or questioned costs are reported relating to federal awards.