

CITY OF NEW LONDON, CONNECTICUT

FEDERAL SINGLE AUDIT REPORT

JUNE 30, 2009

CITY OF NEW LONDON, CONNECTICUT

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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 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, 2009. The City of New London, Connecticut's major federal programs are identified in the summary of auditors' 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, 2009. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2008-2 and 2009-1.

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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.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-2 and 2009-1 to be significant deficiencies.

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 City's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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, 2009 and have issued our report thereon dated December 17, 2009. 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.

December 17, 2009

CITY OF NEW LONDON, CONNECTICUT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal 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</i>			
<i>Department of Administrative Services:</i>			
Food Donation	10.550		\$ 110,861
<i>Passed Through the State Department of</i>			
<i>Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	12060-SDE64370-20508	\$ 341,586
National School Lunch Program	10.555	12060-SDE64370-20560	1,049,359
Summer Food Service Program for Children	10.559	12060-SDE64370-20540	<u>115,590</u>
			1,506,535
Fresh Fruit and Vegetable Program	10.582	12060-SDE64370-22051	<u>38,524</u>
Total United States Department of Agriculture			<u>1,655,920</u>
United States Department of Education			
<i>Passed Through the State of Connecticut</i>			
<i>Department of Education:</i>			
Adult Education	84.002	12060-SDE64370-20784	270,000
Title I Grants to Local Educational Agencies	84.010	12060-SDE64370-20679	1,583,731
Special Education Cluster:			
Special Education - Grants to States	84.027	12060-SDE64370-20977	1,005,208
Special Education - Preschool Grants	84.173	12060-SDE64370-20983	<u>31,432</u>
			1,036,640
Career and Technical Education - Basic Grants to States	84.048	12060-SDE64370-20742	72,432
Safe and Drug-Free Schools and Communities - State Grants	84.186	12060-SDE64370-20873	25,932
Education of Homeless Children and Youth	84.196	12060-SDE64370-20770	30,310
Even Start - State Educational Agencies	84.213	12060-SDE64370-20682	92,878

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CITY OF NEW LONDON, CONNECTICUT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number/ Project Number</u>	<u>Expenditures</u>
Twenty-First Century Community Learning Centers	84.287	12060-SDE64370-20863	\$ 159,872
State Grants for Innovative Programs	84.298	12060-SDE64370-20909	2,648
Education Technology State Grants	84.318	12060-SDE64370-20826	3,208
Reading First State Grants	84.357	12060-SDE64370-20854	208,307
English Language Acquisition Grants	84.365	12060-SDE64370-20868	94,157
Mathematics and Science Partnerships	84.366	12060-SDE64370-21592	392,726
Improving Teacher Quality State Grants	84.367	12060-SDE64370-20858	289,513
School Improvement Grant	84.377A	12060-SDE64370-22223	<u>62,589</u>
Total United States Department of Education			<u>4,324,943</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-EHS99670-30464 12060-EHS99670-30465	\$ 669 <u>7,691</u>
			8,360
Emergency Management Performance Grants	97.042	12060-EHS99660-21881	7,500
Nuclear Emergency Safety Fund	97.004	12060-EHS99670-90428	<u>40,622</u>
Total United States Department of Homeland Security			<u>56,482</u>

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CITY OF NEW LONDON, CONNECTICUT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number/ Project Number</u>	<u>Expenditures</u>
United States Department of Housing and Urban Development			
<i>Direct Programs:</i>			
Community Development Block Grant/Entitlement	14.218		\$ 958,790
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		367,232
Lead-Based Paint Hazard Control in Privately-Owned Housing - ARRA	14.907		<u>119,102</u>
Total United States Department of Housing and Urban Development			<u>1,445,124</u>
United States Department of Justice			
<i>Direct Programs:</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		1,909
Public Safety Partnership and Community Policing Grants COPS	16.710		24,366
<i>Passed Through the State Office of Policy and Management:</i>			
Edward Byrne Memorial Formula Grant Program	16.579	12060-OPM20350-21626	<u>29,837</u>
Total United States Department of Justice			<u>56,112</u>
United States Department of Transportation			
<i>Passed Through the State of Connecticut Department of Transportation:</i>			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	12062-DOT57151-22108	\$ 4,023,895
		12062-DOT57191-22108	<u>6,544</u>
			4,030,439

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CITY OF NEW LONDON, CONNECTICUT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number/ Project Number	Expenditures
Highway Safety Cluster: State and Community Highway Safety	20.600	12062-DOT57343-20559	\$ 13,675
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	12062-DOT57931-21361	53,216
Federal Transit Capital Improvement Grant	20.500	12062-DOT57151-22100	<u>1,442,948</u>
Total United States Department of Transportation			<u>5,540,278</u>
Corporation for National and Community Service <i>Passed Through the State Department of Education:</i>			
Learn And Serve America K-12	94.004	12060-SDE64370-20902	<u>35,000</u>
Total Federal Awards Expended			\$ <u><u>13,113,859</u></u>

CITY OF NEW LONDON, CONNECTICUT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

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 \$110,861 are included in the Department of Agriculture's Food Donation Program, CFDA #10.550. The amount represents the market value of commodities received.

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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 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, 2009, which collectively comprise the City of New London, Connecticut's basic financial statements, and have issued our report thereon dated December 17, 2009. 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 City'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

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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, 2007-4 and 2008-1 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 and 2007-4 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 December 17, 2009.

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, 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.

December 17, 2009

CITY OF NEW LONDON, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

I. Summary of Auditors' Results

Financial Statements

Type of auditors' 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? X yes none reported

Type of auditors' 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? X yes no

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant/Entitlement
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing
14.907	Lead-Based Paint Hazard Control in Privately-Owned Housing - ARRA
20.205	Highway Planning and Construction Cluster
20.500	Federal Transit Capital Improvement Grant

Dollar threshold used to distinguish between type A and type B programs: \$393,416

Auditee qualified as low-risk auditee? yes X no

II. Financial Statement Findings

1. We issued reports, dated December 17, 2009, 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 that have been disposed but were still included in capital assets. This led to prior period adjustments in fiscal 2008 and 2009 to restate capital asset balances.

Recommendation: We recommend that a full review of the capital asset system be performed to ensure all assets are properly entered and removed. This software system should be used to its fullest and should be able to produce meaningful 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 has started a program in that staff receives more training on the City's accounting software. This included purchasing unlimited access to online and web seminars, and this November sent every staff member in Finance to the SunGard (our software provider) annual regional training conference. As part of improving the long-term planning a more detailed five-year capital plan is being developed and a needs assessment has been completed. The Capital Project Fund is being reviewed on a semi-annual basis to determine status of projects, equipment and available funding

2007-4

Board of Education Reconciliation

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

Criteria: As the City's general ledger constitutes the official books and records of the City, it is crucial that the Board of Education (BOE) reconcile its subsidiary ledgers, General Fund and Grant Fund, to the City on a monthly basis.

Condition: Although there were minor discrepancies noted between the expenditures per the BOE records and the general ledger balance per the City's records, this process is still not occurring. The City is obtaining a summary of the BOE's expenditures and is monitoring the balancing, however, this is not their responsibility. The BOE should be initiating the reconciliation process. Exacerbating this issue is the fact that the communication between the City Finance Department and the BOE Business office has been lacking.

Recommendation: This has been an ongoing issue since 2004. This issue cannot continue and needs to be resolved in order for the City to produce meaningful interim financial reports and issue a timely audit.

We recommend that management of the City and the BOE meet to formulate a mutually agreeable solution. Although not necessary, management should consider hiring a specialist to suggest different processes and procedures in order to attain this goal. On a monthly basis, the BOE needs to perform a reconciliation of their expenditures to the City's records. This reconciliation should be timely and should be approved by the City in order to affirm that the BOE is reconciled with the City's records. Management should consider giving the City's Finance Department read-only access to the BOE's detail general ledger in order to facilitate timely and accurate reconciliations.

Management Response: The City Council and BOE have started having joint monthly meetings to discuss improving communication between the two entities. They have charged the Superintendent of Schools and the City Manger to meet and report back to them by March on options. Included in the discussions is the possible merger of School and City Finance Departments.

2008-1 City Cash Disbursements Internal Controls

Type of Finding: Significant deficiency in internal control over financial reporting.

Criteria: There should be review procedures in place over cash disbursements.

Condition: During our audit, we noted that certain controls did not exist involving cash disbursements. All checks are entered into the system by the accounts payable clerk and reviewed by the Treasurer; however, the Treasurer also has access to enter checks into the system. There is a report printed listing all checks entered; however, it is not reviewed by anyone other than the Treasurer. Also, all checks require only one signature by the Treasurer. In addition, although bank reconciliations are performed by the Senior Accountant, they are not reviewed or signed off by anyone.

Recommendation: We recommend that once the batch is completed in the general ledger, a formal review by someone other than the Treasurer review this listing to ensure no additional checks were entered for payment. This review should be documented. We also recommend that a review and sign off of bank reconciliations be performed.

Management Response: The City is upgrading payroll and check printing procedures. The City has recently purchased software and printers from ACOM. This system and software will provide additional security over check processing, including keys that lock the printer. The City is implementing a procedure where as a detailed check run is produced prior to printing of checks that will be signed off by either the Director of Finance or City Manager. Monthly Bank Reconciliation of City Accounts will be sent to Director of Finance for review and signature.

III. Federal Award Findings and Questioned Costs

2008-2 Community Development Block Grants/Entitlement Grants Reporting

Criteria: The grantee must submit quarterly Federal Cash Transaction Reports (SF-272) by the 15th day of the following month to the grantor agency.

Condition: The City did not file any Federal Cash Transaction Reports during fiscal year 2008 or the first three quarters of fiscal 2009.

Questioned Costs: None

Context: The preparation of reports was delegated to the Finance office and the City overlooked the requirement to prepare and submit these reports.

Effect: No effect can be determined.

Cause: The City did not have documented procedures for preparation, review and submission of required reports to ensure adherence to grantor guidelines.

Recommendation: We recommend that the City develop procedures over the preparation, review and submission of financial reports required by the grantor to ensure they are completed timely.

Management Response This was an oversight on the part of the Finance Department staff. Procedures have been established so that the oversight will not recur. CDBG staff have also been alerted to the need for reports to be issued so that there will be a double check to assure the timely filing of the required reports.

2009-1 Community Development Block Grants/Entitlement Grants Earmarking

Criteria: The grantee must submit quarterly Federal Cash Transaction Reports.

Condition: The City incorrectly reported fourth quarter fiscal 2009 expenditures on the Federal Cash Transaction Report.

Questioned Costs: Expenditures reported exceeded expenditures per the GL by \$49,973.

Context: The City did not properly review the report before filing.

Effect: No effect can be determined.

Cause: The City did not have review procedures over the report.

Recommendation: We recommend that the City review all reports before filing to ensure their accuracy.

Management Response This was an isolated incident where accounts payable were inadvertently double counted in the preparation of the report. Reports will be reviewed to ensure accuracy going forward. An amended report was filed on November 10, 2009 to report the appropriate amount of expenditures for June 30, 2009.