

CITY OF NEW LONDON, CONNECTICUT

STATE SINGLE AUDIT REPORT

JUNE 30, 2007

CITY OF NEW LONDON, CONNECTICUT

STATE SINGLE AUDIT REPORT

JUNE 30, 2007

TABLE OF CONTENTS

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program, on Internal Control over Compliance in Accordance with the State Single Audit Act and on the Schedule of Expenditures of State Financial Assistance	1-2
Schedule of Expenditures of State Financial Assistance	3-6
Notes to Schedule	7-8
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	9-10
Schedule of Findings and Questioned Costs	11-14



**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program, on Internal Control over
Compliance in Accordance with the State Single Audit Act
and on the Schedule of Expenditures of State Financial Assistance**

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 *Office of Policy and Management Compliance Supplement* that are applicable to each of its major state programs for the year ended June 30, 2007. The City of New London, Connecticut's major state 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 state 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 the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act 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 state 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 state 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 state 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 state 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 state 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 state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state 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 state 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 State Financial Assistance

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 state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act 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 and state awarding agencies 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 STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2007

<u>State Grantor/Pass-Through Grantor/ Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Board of Education and Services for the Blind		
Education of Handicapped Blind Children	11000-ESB65020-12060	\$ <u>38,718</u>
Commission on Culture and Tourism		
Historic Preservation Fund Subgrants 2003	12060-CAT45241-21494	<u>24</u>
State Comptroller		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OSC15910-17004	383,434
Payment in Lieu of Taxes (PILOT) on Private Colleges and General Hospitals	11000-OSC15910-17006	6,072,819
Mashantucket Pequot/Mohegan Fund	12009-OSC15910-17005	2,690,543
Boat Grant	12027-OSC15910-40211	<u>16,125</u>
Total State Comptroller		<u>9,162,921</u>
Department of Economic and Community Development		
Payment In Lieu of Taxes (PILOT) Moderate Rental	11000-ECD46400-17012	<u>107,003</u>
Department of Education		
Primary Mental Health	11000-SDE64370-12198	17,900
Adult Education	11000-SDE64370-17030	911,308
Health Services	11000-SDE64370-17034	43,840
Bilingual Education	11000-SDE64370-17042	74,573
Priority School Districts	11000-SDE64370-17043	1,228,359
Early Reading Success Grant Program For Priority School Districts	11000-SDE64370-17043	299,942
Extended School Hours Program Grant	11000-SDE64370-17043	58,887

(Continued on next page)

CITY OF NEW LONDON, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE
FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007

<u>State Grantor/Pass-Through Grantor/ Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Summer School Accountability Grant	11000-SDE64370-17043	\$ 71,425
School Breakfast	11000-SDE64370-17046	36,253
Youth Services Bureau	11000-SDE64370-17052	26,457
Magnet Schools	11000-SDE64370-17057	457,944
After School Program	11000-SDE64370-17084	150,000
DCF Primary Mental Health	12060-SDE64370-90493	2,100
Future Math and Science School	11000-SDE64370-12368	46,462
Generation Next	11000-SDE64370-12369	31,233
Healthy Foods Program	11000-SDE64370-16072	55,490
Young Adult Learners	11000-SDE64370-17091	33,331
State Funds for Technology Infrastructure	12052-SDE64370-42860	<u>8,985</u>
Total Department of Education		<u>3,554,489</u>
Department of Environmental Protection		
Clean Water Fund	21015-OTT14230-42318	18,576
Maintenance Repair and Improvement	12027-DEP44347-40207	<u>4,327</u>
Total Department of Environmental Protection		<u>22,903</u>
Connecticut State Library		
Grants to Public Libraries	11000-CSL66051-17003	<u>2,395</u>

(Continued on next page)

CITY OF NEW LONDON, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE
FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007

<u>State Grantor/Pass-Through Grantor/ Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Department of Mental Health and Addiction Services		
Housing Supports and Services	11000-MHA53300-12035	\$ <u>43,933</u>
Office of Policy and Management		
Reimbursement of Property Taxes - Disability Exemption	11000-OPM20600-17011	1,766
Payment in Lieu of Taxes (PILOT) on Exempt Property of Manufacturing Facilities in Distressed Municipalities	11000-OPM20600-17016	1,595,763
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	105,893
Property Tax Relief for Elderly Homeowners - Freeze Program	11000-OPM20600-17021	8,000
Property Tax Relief for Veterans	11000-OPM20600-17024	7,174
Property Tax Relief for Manufacturing Machinery and Equipment and Commercial Vehicles	11000-OPM20600-17031	71,490
Property Tax Relief	11000-OPM20600-17086	<u>477,833</u>
Total Office of Policy and Management		<u>2,267,918</u>
Department of Public Safety		
State Assets Forfeiture Revolving Fund	12060-DPS32155-35142	20,994
SNTF Local Officer Incentive Program	11000-DPS32539-17089	10,743
Local Officer Incentive Program	12060-DPS32539-20231	4,493
Local Officer Incentive Program	12060-DPS32539-90201	<u>1,498</u>
Total Department of Public Safety		<u>37,728</u>
Department of Social Services		
Medicaid	11000-DSS60000-16020	<u>87,706</u>

(Continued on next page)

CITY OF NEW LONDON, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE
FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2007

<u>State Grantor/Pass-Through Grantor/ Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Department of Transportation		
Town Aid Roads Grants Transportation Fund	12001-DOT57131-17036	\$ 127,991
Rail Operations	12001-DOT57124-12168	<u>63</u>
Total Department of Transportation		<u>128,054</u>
Total State Financial Assistance Before Exempt Programs		<u>15,453,792</u>
Exempt Programs		
Department of Education		
Public School Transportation	11000-SDE64370-17027	357,084
Educational Cost Sharing	11000-SDE64370-17041	20,637,534
Excess Costs Student Based and Equity	11000-SDE64370-17047	604,414
Excess Costs Student Based and Equity	11000-SDE64370-17048	173,278
Nonpublic School Transportation	11000-SDE64370-17049	52,158
School Construction Grants	13009-SDE64370-40896	205,205
School Construction Grants	13010-SDE64370-40901	<u>11,872,582</u>
Total Exempt Programs		<u>33,902,255</u>
Total State Financial Assistance		<u>\$ 49,356,047</u>

CITY OF NEW LONDON, CONNECTICUT

NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2007

Various departments and agencies of the State of Connecticut have provided financial assistance to the City of New London, Connecticut, through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. The financial assistance programs fund several programs including education, property tax relief, public safety, transportation, economic development, library, general government and social service programs.

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 financial statements contained in the City of New London, Connecticut's annual audit report are prepared on the modified accrual basis of accounting. The following is a summary of such basis:

Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are recorded when the related fund liability is incurred, if measurable.

The schedule of expenditures of state financial assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Sections 4-236-22), certain grants are not dependent on expenditure activity and, accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the schedule of expenditures of state financial assistance.

Note 2 - **Loan Programs:**

In accordance with Section 4-236-23(a)(4)(F) of the Regulations to the State Single Audit Act, the notes to the schedule of expenditures of state financial assistance shall include loans and loan activities. The following is a summary of the various loan program activity for the year ended June 30, 2007:

Department of Environmental Protection:

Clean Water Fund 21015-OTT-14230-42318:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance Beginning</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance Ending</u>
187-C	12/30/96	2%	\$ 4,618,393	\$ 2,193,737	\$ -	\$ 230,920	\$ 1,962,817
187-CD1	12/30/99	2	1,306,151	775,527	-	81,634	693,893
390-C	03/29/00	2	1,615,141	1,029,653	-	80,758	948,895
390-CD1	12/31/01	2	700,861	515,537	-	40,435	475,102
455-PDC	02/28/02	2	2,014,170	1,527,412	-	100,708	1,426,704



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 and state awarding agencies 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

State Financial Assistance

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 4-236-24 of the Regulations to the State Single Audit Act? yes X no

- The following schedule reflects the major programs included in the audit:

<u>State Grantor and Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
Office of the State Comptroller:		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OSC15910-17004	\$ 383,434
Payment in Lieu of Taxes (PILOT) on Private Colleges and General Hospitals	11000-OSC15910-17006	6,072,819
Mashantucket Pequot/Mohegan Find	12009-OSC15910-17005	2,690,543
Department of Education:		
Adult Education	11000-SDE64370-17030	911,308
Priority School Districts	11000-SDE64370-17043	1,228,359
Early Reading Success Grant Program For Priority School Districts	11000-SDE64370-17043	299,942
Magnet Schools	11000-SDE64370-17057	457,944

Office of Policy and Management:
 Payment in Lieu of Taxes (PILOT)
 on Exempt Property of
 Manufacturing Facilities in
 Distressed Municipalities
 Property Tax Relief

11000-OPM20600-17016	1,595,763
11000-OPM20600-17086	477,833

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 condition contributed 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 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 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 to 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 only 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. State Financial Assistance Findings and Questioned Costs

No findings or questioned costs are reported relating to state financial assistance programs.