

CITY OF STAMFORD, CONNECTICUT  
FEDERAL AND STATE FINANCIAL  
AND COMPLIANCE REPORTS  
YEAR ENDED JUNE 30, 2012

City of Stamford, Connecticut  
Federal and State Financial and Compliance Reports  
June 30, 2012

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CITY OF STAMFORD, CONNECTICUT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED June 30, 2012

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass - Through Entity Identifying Number</u>	<u>NON ARRA</u>	<u>ARRA</u>	<u>Total Federal Expenditures</u>
<b><u>Department of Agriculture</u></b>					
Pass -Through Programs From:					
Connecticut State Department of Education					
<b>Child Nutrition Cluster:</b>					
School Breakfast Program (SPB)	10.553	12060SED6437020508	\$ 533,761	\$ -	\$ 533,761
National School Lunch Program (NSLP)	10.555	12060SED6437020560	2,659,967	-	2,659,967
National School Lunch Program (NSLP) - Commodities	10.555	12060SED6437020560	167,861	-	167,861
<b>Total Child Nutrition Cluster</b>			<u>3,361,589</u>	<u>-</u>	<u>3,361,589</u>
Pass -Through Programs From:					
Connecticut Department of Public Health					
Special Supplemental Nutrition Program For Women, Infants and Children (WIC) - Non Cash					
	10.557	Non - Contract	2,485,564	-	2,485,564
Infants and Children (WIC) 2010	10.557	12060DPH4887220892	247,070	-	247,070
Infants and Children (WIC) 2011	10.557	12060DPH4887220892	585,083	-	585,083
Pass - Through Program From:					
Connecticut Department of Agriculture					
Special Supplemental Nutrition Program For Women, - Farmer's Market	10.557		<u>2,403</u>	<u>-</u>	<u>2,403</u>
<i>Total Department of Agriculture</i>			<u>6,681,709</u>	<u>-</u>	<u>6,681,709</u>
<b><u>Department of Housing and Urban Development</u></b>					
Direct Programs:					
<b>CDBG Entitlement Grant Cluster:</b>					
Community Development Block Grants Entitlement Grants	14.218		1,440,669	-	1,440,669
<b>ARRA -Community Development Block Grant Entitlement Grants (CDBG-R)</b>					
	14.253		<u>-</u>	<u>6,356</u>	<u>6,356</u>
<b>Total CDBG Entitlement Grant Cluster</b>			1,440,669	6,356	1,447,025
HOME Investment Partnerships Program	14.239		876,100	-	876,100
Communities Challenge Planning Grants and the Department of Transportation Tiger II Planning Grants	14.704		1,752	-	1,752
Pass - Through Programs From:					
Connecticut Department of Economic and Community Development					
Neighborhood Stabilization Program (NSP)	14.218	12060ECD4640022324	<u>359,303</u>	<u>-</u>	<u>359,303</u>
<i>Total Department of Housing and Urban Development</i>			<u>2,677,824</u>	<u>6,356</u>	<u>2,684,180</u>
<b><u>Department of Justice</u></b>					
Direct Programs:					
Office of Justice Programs					
Bulletproof Vest Partnership	16.607		<u>1,875</u>	<u>-</u>	<u>1,875</u>
Violence Against Women Office:					
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		<u>222,337</u>	<u>-</u>	<u>222,337</u>
<b>JAG Program Cluster - Direct</b>					
Edward Byrne Memorial Justice Assistance Grant Program	16.738		74,920	-	74,920
<b>ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Grants to Units of Local Governments</b>					
	16.804		<u>-</u>	<u>144,441</u>	<u>144,441</u>
<b>Total JAG Cluster</b>			<u>74,920</u>	<u>144,441</u>	<u>219,361</u>
Public Safety Partnership and Community Policing Grant Office of Community Oriented Policing Services	16.710		<u>477,418</u>	<u>-</u>	<u>477,418</u>
Pass - Through Program From:					
The Connection Inc. ,Project Safe Neighborhoods					
	16.609		<u>7,138</u>	<u>-</u>	<u>7,138</u>
<i>Total Department of Justice</i>			<u>783,688</u>	<u>144,441</u>	<u>928,129</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED June 30, 2012

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass - Through Entity Identifying Number</u>	<u>NON ARRA</u>	<u>ARRA</u>	<u>Total Federal Expenditures</u>
<b><u>Department of Transportation</u></b>					
Direct Programs:					
<b><i>Federal Transit Cluster</i></b>					
Federal Transit - Capital Investment Grants	20.500		\$ 8,694,589	\$ -	\$ 8,694,589
ARRA - Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507		500,537	1,700,000	2,200,537
<b>Total Federal Transit Cluster</b>			<u>9,195,126</u>	<u>1,700,000</u>	<u>10,895,126</u>
<b><i>Highway Planning and Construction Cluster</i></b>					
Highway Planning and Construction (Federal-Aid Highway Program)	20.205		3,394	-	3,394
Pass - Through Programs From:					
Connecticut Department of Transportation					
Long Ridge High Ridge Corridor Study	20.205	12062DOT5755122108	208,920	-	208,920
Safe Routes to School		12062DOT5716122108	378,600	-	378,600
FHWA Emergency Relief Storm Irene			16,421	-	16,421
Hope St. Reconstruction Design		12062DOT5719122108	251,936	-	251,936
Stillwater Rd. Reconstruction Design		12062DOT5719122108	83,409	-	83,409
<b>Total Highway Planning and Construction Cluster</b>			<u>942,680</u>	<u>-</u>	<u>942,680</u>
State and Community Highway Safety - DUI Enforcement	20.600	12062DOT5734322091	52,714	-	52,714
<i>Total Department of Transportation</i>			<u>10,190,520</u>	<u>1,700,000</u>	<u>11,890,520</u>
<b><u>Environmental Protection Agency</u></b>					
Direct Programs:					
Healthy Communities Grant Program	66.110		8,658	-	8,658
Pass - Through Programs From:					
Connecticut Department of Environmental Protector					
Congressionally Mandated Projects - Mill River Storm Water Management	66.202		118,203	-	118,203
Long Island Sound Program - National Fish and Wildlife Foundation Mill River storm water treatment	66.437		500,000	-	500,000
<i>Total Environmental Protection Agency</i>			<u>626,861</u>	<u>-</u>	<u>626,861</u>
<b><u>Department of Energy</u></b>					
Direct Programs:					
ARRA -Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		-	724,643	724,643
<b><u>Department of Education</u></b>					
Pass - Through Programs From:					
Connecticut State Department of Education					
Adult Education—State Grant Program - English Literature & Civics	84.002	1260SDE6437020784	163,800	-	163,800
<b><i>Title I Part A Cluster:</i></b>					
Title I Grants to Local Educational Agencies					
Title I Part A of ESEA	84.010	12060SDE6437020679	2,733,999	-	2,733,999
<b><i>School Improvement Cluster:</i></b>					
School Improvement Grants	84.377	12060SDE6437020679	64,000	-	64,000
<b><i>Special Education Cluster (IDEA):</i></b>					
Special Education Grants to States (IDEA, Part B)	84.027	12060SDE6437020977	3,565,462	-	3,565,462
Special Education Preschool Grants (IDEA, Preschool)	84.173	12060SDE6437020983	106,988	-	106,988
<b>Total Special Education Cluster (IDEA)</b>			<u>3,672,450</u>	<u>-</u>	<u>3,672,450</u>
Career and Technical Education - Basic Grants to States, (Perkins IV)	84.048	12060SDE6437020742	176,607	-	176,607
Twenty First Century Community Learning Center:					
21st Century Rippowam	84.287	12060SDE6437020863	156,000	-	156,000
21st Century Dolan	84.287	12060SDE6437020863	200,000	-	200,000
Subtotal Twenty First Century			<u>356,000</u>	<u>-</u>	<u>356,000</u>

CITY OF STAMFORD, CONNECTICUT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED June 30, 2012

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass - Through Entity Identifying Number</u>	<u>NON ARRA</u>	<u>ARRA</u>	<u>Total Federal Expenditures</u>
<b><u>Department of Education (Continued)</u></b>					
English Language Acquisition Grants	84.365	12060SDE643720868	\$ 377,541	\$ -	\$ 377,541
Improving Teachers' Quality State Grants	84.367	12060SDE643720858	568,201	-	568,201
<b>ARRA - Education Jobs Fund</b>	84.410	12060SDE643722405	-	473,424	473,424
<i>Total Department of Education:</i>			<u>8,112,598</u>	<u>473,424</u>	<u>8,586,022</u>
<b><u>Department of Health and Human Services</u></b>					
Pass - Through Program From:					
NACCHO					
Medical Reserve Corps Small Grant Program	93.008		1,994	-	1,994
Pass - Through Program From:					
Centers for Disease Control and Prevention Investigations and Technical Assistance					
State of Connecticut Department of Public Health					
Oral Health Collaborative	93.283	12060DPH2228948834	2,779	-	2,779
Immunization Grants	93.268	210-0206	85,552	-	85,552
Immunization Cooperative Agreements Vaccines Non - Cast	93.268	Non - Contract	75,807	-	75,807
<b>Total Immunization Cluster</b>			<u>161,359</u>	<u>-</u>	<u>161,359</u>
Public Health Emergency Preparedness	93.069	DPH22333PHP2010	84,175	-	84,175
HIV Prevention Activities - Health Department Based	93.940	DPH20920AID2010	152,396	-	152,396
Preventive Health and Health Services Block Grant	93.991	11000DPH4855810020	18,138	-	18,138
Pass -Through Program From:					
Connecticut Department of Education					
Social Services Block Grant Day Care	93.667	12060SDE6422026155	856,096	-	856,096
Connecticut Department of Social Services					
Social Service Block Grant Counseling	93.667	12060DSS6079420699	30,472	-	30,472
<i>Total Department of Health and Human Services</i>			<u>1,307,409</u>	<u>-</u>	<u>1,307,409</u>
<b><u>Department of Homeland Security</u></b>					
Pass - Through Programs From:					
Connecticut Department of Emergency Management and Homeland Security					
Disaster Grants - Public Assistance (Presidentially Declared Disasters) -					
FEMA Tropical Storm Irene - DR-4023-CT	97.036	12060EHS9969021891	663,942	-	663,942
FEMA January 2011 Snow Storm - DR-1958-CT			201,193	-	201,193
Emergency Management Performance Grants	97.042	12060EHS9966021881	64,562	-	64,562
Pass - Through Program From:					
Westport Weston Health District					
The Medical Reserve CORPS	97.067		1,755	-	1,755
South Western Regional Planning Agency					
CERT Training Program	97.067		1,105	-	1,105
Homeland Security Grant Program	97.067	12060EHA9953022330	3,661,387	-	3,661,387
<i>Total Department of Homeland Security</i>			<u>4,593,944</u>	<u>-</u>	<u>4,593,944</u>
<b>Total Federal Expenditures</b>			<u>\$ 34,974,553</u>	<u>\$ 3,048,864</u>	<u>\$ 38,023,417</u>

City of Stamford, Connecticut  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012

**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of Stamford, Connecticut ("City") under programs of the Federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, which establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments (governmental units). The basis used to determine noncash awards expended: such as food stamps, food commodities and donated property, is the fair market value at the time of the receipt, or the assessed value provided by the Federal or pass-through agencies.

**3. USDA Contributions**

The U.S. Department of Agriculture makes available commodities for donations to schools. The amount of \$167,861 represents the market value of such commodities.

**4. WIC Food Payments**

The U.S. Department of Agriculture makes non-cash distributions of food vouchers for WIC. The amount of \$2,485,564 represents the market value of such vouchers used during this period.

**5. Vaccines**

The U.S. Department of Health and Human Services makes non-cash distributions of vaccines. The amount of \$75,807 represents the market value of such vaccines.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

To the Honorable Mayor and Governing Board of Finance  
City of Stamford, Connecticut

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Stamford, Connecticut ("City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 17, 2012. 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**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as findings items 2012-01 through 2012-03 that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 in a separate letter dated January 25, 2013.

The City's response to the findings identified in our audit is described in the accompanying attachment "Management's Response and Corrective Action Plan." We did not audit the City's responses and, accordingly, we express no opinion on them.

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

*O'Connor Davies, LLP*

**O'Connor Davies, LLP**  
Stamford, Connecticut  
December 17, 2012



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and Governing Board of Finance  
City of Stamford, Connecticut

**Compliance**

We have audited the City of Stamford, Connecticut's ("City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City'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 City's management. Our responsibility is to express an opinion on the City'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'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's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

O'CONNOR DAVIES, LLP

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## **Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2012 and have issued our report thereon dated December 17, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

*O'Connor Davies, LLP*

**O'Connor Davies, LLP**

Stamford, Connecticut

December 17, 2012

City of Stamford, Connecticut  
Schedule of Findings and Questioned Costs - Federal  
June 30, 2012

Section I - Summary of Auditors' Results

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  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 OMB Circular A-133?  yes  no

City of Stamford, Connecticut  
 Schedule of Findings and Questioned Costs - Federal  
 June 30, 2012

Identification of major programs:	<b>Federal CFDA Number</b>
<b><u>Program Name</u></b>	
<b>Child Nutrition Cluster</b>	
School Breakfast Program (SBP)	10.553
National School Lunch Program (NSLP)	10.555
National School Lunch Program (NSLP) – Commodities	10.555
<b>Federal Transit-Capital Investment Grants Cluster</b>	
Federal Transit-Capital Investment Grants	20.500
Federal Transit-Capital Investment Grants	20.507
Federal Transit-Capital Investment Grants – American Recovery and Reinvestment Act (ARRA)	20.507
Energy Efficiency and Conservation Block Grant Program - American Recovery and Reinvestment Act (ARRA)	81.128
<b>Special Education Cluster</b>	
Special Education - Grants to States (IDEA, Part B)	84.027
Special Education - Preschool Grants (IDEA Preschool)	84.173
The Education Jobs Fund -American Recovery and Reinvestment Act (ARRA)	84.410
Homeland Security Grant Program	97.067

City of Stamford, Connecticut  
Schedule of Findings and Questioned Costs - Federal  
June 30, 2012

Dollar threshold used to distinguish  
between Type A and Type B programs \$1,140,703  
Auditee qualified as low-risk auditee?  X  yes   no

**Section II – Financial Statement Findings**

**Finding 2012 - 01: Year End Closing, Process and Communication**

**Criteria:** As a large, complex organization, the City is required to secure information required for financial reporting and maintaining proper internal control in various departments such as the Tax Department, the Grants Department, Payroll, Office of Legal Affairs, Board of Education (“BOE”).

**Condition:**

In our review of the City’s records, the year-end closing process was not complete. Account reconciliations and analyses had not been prepared for many accounts, and certain schedules, reconciliations and analyses had not been reviewed by supervisory personnel.

- The property tax receivable, overpayments account, disputed assessments and related revenue accounts are not routinely reconciled to the general ledger. The information is summarized by the Tax Department; however, the lack of communication between the Tax Department and the Controller’s Department leads to situations where the aforementioned accounts’ sub-ledgers are not reconciled to the general ledger.
- Transfers to the Mill River Capital Projects Fund and the Harbor Point District, affecting the property tax accounts, were not recorded by the City.
- Schedules to support disputed tax assessments maintained by the Tax Department were not available for review by the Controller’s Department.
- Certain of the school construction debt accounts were not reconciled and did not agree with the underlying amortization schedules.
- Schedules of educational and other grants receivables/deferred revenues were not prepared and the related general ledger accounts had not been analyzed.
- Because the closing process was not complete the entity-wide adjustments required for reporting in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 34 and for completion of the Comprehensive Annual Financial Report could not be made.
- Loan balances relating to various loan programs administered by the Community Development Program were not reflected in the general ledger.

City of Stamford, Connecticut  
Schedule of Findings and Questioned Costs - Federal  
June 30, 2012

**Section II – Financial Statement Findings (Continued)**

**Finding 2012 - 01: Year End Closing, Process and Communication (Continued)**

- Insufficient documentation and communication of accounting and financial reporting processes and procedures related to the year-end audit, including the lack of supervisory review as well as lack of clearly defined roles and responsibilities of each department and individuals within each department for maintaining, monitoring and sharing information.
- The lack of a well-defined and effective monthly, quarterly and annual closing process.
- The City Charter requires that the City's financial statements be prepared and submitted to the Board of Finance by September 30<sup>th</sup> of each year. Given that some of the information required for a complete and proper year-end closing is not available for as long as 60 days after year-end (i.e. August 31), the time frame to complete the year-end closing is extremely restricted.
- Some departments within the City operate independently of other departments and may not have a sufficient understanding of and/or accountability for the closing process and related accounting and reporting practices.
- Several areas of the general ledger account coding structure do not provide sufficient information to properly review, reconcile, monitor and report activity.
- The City uses a pooled cash arrangement whereby one general operational account is used to record receipts and disbursements and account for the cash balances of several different City funds and individual general ledger accounts to track the share of the pooled cash account "owned" by each separate fund. While pooled cash arrangements are often acceptable and widely used in practice, we believe this pooled cash arrangement contributes to a lack of transparency.

**Management letter significant deficiency comments 1, 4 and 5 Exhibit B.**

**Cause:** Insufficient documentation and communication of accounting and financial reporting processes and procedures related to the year-end audit, including the lack of supervisory review as well as lack of clearly defined roles and responsibilities of each department and individuals within each department for maintaining, monitoring and sharing information. There is a lack of a well-defined and effective monthly, quarterly and annual closing process. Not adhering to the City Charter that the City's financial statements be prepared and submitted to the Board of Finance by September 30<sup>th</sup> of each year. Some departments within the City operate independently of other departments and may not have a sufficient understanding of and/or accountability for the closing process and related accounting and reporting practices.

**Effect or Potential Effect:** These conditions can have a negative impact on internal efficiencies of systems and may jeopardize effective financial reporting and internal control.

**Recommendation:** We recommend that these issues be evaluated and that the appropriate corrective actions be implemented as soon as possible.

City of Stamford, Connecticut  
Schedule of Findings and Questioned Costs - Federal  
June 30, 2012

**Section II – Financial Statement Findings (Continued)**

**Finding 2012 - 01: Year End Closing, Process and Communication (Continued)**

**Management's Response:** See attached Corrective Action Plan.

**Finding 2012 - 02: Old Town Hall Redevelopment Agency (OTHRA)**

**Criteria:** OTHRA was created to finance the redevelopment of the Old Town Hall in downtown Stamford. In addition OTHRA was expected to manage the accounting, operating and strategic functions of the project.

**Condition:** The City does not have an adequate process in place to properly account for the complex nature of OTHRA's entities and their reporting requirements.

**Management letter significant deficiency comment 2 Exhibit B**

**Cause:** Accounting entries related to OTHRA activity were not being properly recorded in the City's accounting records. We did not see evidence that advances or appropriations were approved in accordance with City requirements. Pending claims for cost overruns by the construction contractor are delaying the receipt of a final certificate of occupancy and the New Markets and Historic Tax Credits. In addition to these and other accounting issues, there are some significant operating and strategic issues relating to OTHRA.

**Effect or Potential Effect:** At the time the OTHRA project was conceived, it was anticipated that, upon completion of construction, the Old Town Hall building would be leased, generating sufficient rent to cover all operating and interest / debt service costs associated with the project. It was also anticipated that the project would benefit from the in-flow of cash from the New Markets Tax Credit and the Historic Tax Credit. Unfortunately, the building was not leased during the year and, due at least in part to the delay in obtaining a final certificate of occupancy (because of the pending dispute with the contractor); the project was delayed in qualifying for the New Markets or Historic Tax Credits.

**Recommendation:** City officials should seek the advice of qualified legal counsel regarding the operational and other issues related to OTHRA in order to fully understand the legal and other requirements for operating OTHRA, including any corrective actions that may now be required and the implications of noncompliance, if any, with any of those requirements.

**Management's Response:** See attached Corrective Action Plan.

**Finding 2012 - 03: Internal Service Fund – Risk Management**

**Criteria:** The Risk Management Internal Service Fund reflects workers' compensation claim liabilities, which are based upon estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled.

**Condition:** The City is self-insured for workers' compensation and heart and hypertension claims and had recorded a liability of approximately \$8 million for workers compensation claims at June 30, 2012. This amount recorded for the City's reported but unpaid workers' compensation claims was provided by the City's third party administrator and may not properly reflect the City's potential liability.



City of Stamford, Connecticut  
Schedule of Findings and Questioned Costs - Federal  
June 30, 2012

**Section II – Financial Statement Findings (Continued)**

**Management letter significant deficiency comment 3 Exhibit B**

**Cause:** The City has not had an actuary calculate incurred but not reported (IBNR) claims for workers' compensation.

**Effect or Potential Effect:** The City may not be accurately disclosing the potential liability associated with workers' compensation claims.

**Recommendation:** The City should engage the services of an actuary to calculate the incurred but not reported workers' compensation and heart and hypertension claims to assist in providing an evaluation of the potential liability for the utilization by the City to fund the City's incurred but not reported claims liability.

**Management's Response:** See attached Corrective Action Plan.

**Section III – Federal Award Findings and Questioned Costs**

**None**

City of Stamford, Connecticut

Summary Schedule of Prior Audit Findings - Federal

Year Ended June 30, 2012

**Section IV – Summary of Prior Audit Findings - Federal**

**Finding 2011-01: Year End Closing Procedures**

**Condition:** In our review of the City's records, we noted that key accounts requiring full accrual presentation with GASB Statement No. 34 were not reconciled and fully converted.

- The closing process was not complete.
- The property tax receivable, overpayments accounts, disputed assessments and related revenue accounts were not reconciled to the General Ledger.
- Schedules to support disputed tax assessments maintained by the Tax Department were not available to review by Controller's Department.
- The liability for claims incurred were not reported in connection with the heart and hypertension claims and were not adjusted based on the report provided by the City's third party administrator.
- The prior year accrual for state aid revenue receivable was not reversed.
- Certain of the school construction debt accounts were not recorded and did not agree with the underlying schedules.
- Schedules of educational and other grants receivable were not prepared and the related General Ledger accounts had not been analyzed.
- BOE encumbrances were not liquidated even though the goods and services had been received or performed.
- Information provided regarding pending litigation, asserted claims, and outside counsel retained to handle certain matters was incomplete.
- Loan balances relating to various loan programs administered by the Community Development Program were not reflected in the General Ledger.
- Other Post Employment Benefits – Employee contributions from City retirees were not adjusted from their initial year of retirement throughout the fiscal year.
- General Ledger account coding structure does not provide sufficient information to properly review, reconcile, monitor and report activity

**Current Status:** The liability for claims incurred but not reported with the heart and hypertension claims, the prior year accrual for state aid revenue receivable, BOE encumbrances and the General Ledger account coding structure were corrected and are no longer considered significant deficiencies. The other conditions remain uncorrected. Similar findings were noted in 2008, 2009 and 2010. See finding 2012-01.

**Finding 2011-02: Old Town Hall Redevelopment Agency**

**Condition:** The City does not have an adequate process in place to properly account for the complex nature of OTHRA's entities. The use of an outside accountant and the City's financial management to account for these entities has resulted in duplicated and unrecorded accounting information.

**Current Status:** The finding remained uncorrected. See similar finding 2012 - 02.

Summary Schedule of Prior Audit Findings - Federal

Year Ended June 30, 2012

**Section IV – Summary of Prior Audit Findings - Federal (Continued)**

**Finding 2011- 03: Schedule of Expenditures of Federal Awards** – CFDA 84.027, 84.173, 84.391 and 84.392 Special Education Grants to States, CFDA 16.738, 16.803 and 16.804 JAG Program Cluster Grants, and CFDA 20.500 and 20.507 Federal Transit Cluster.

**Condition:** Management did not include expenditures for the Social Services Block Grant but instead reported the amounts as State expenditures. Management did not report all expenditures for the Special Education Grants to the State. Circular A-133 defines a cluster of programs as a grouping of closely related federal programs that share common compliance requirements. Cluster programs must be identified on the SEFA. The client did not identify two cluster programs; the JAG Grant Cluster and the Federal Transit Cluster.

**Current Status:** This finding has been corrected.

**Finding 2011 - 04 Reconciliation to Books and Records** – CFDA 20.507 Federal Transit-Capital Improvements Program.

**Condition:** Two instances were noted where amounts did not agree between those reported on the General Ledger and those reported on the SEFA.

**Current Status:** This finding has been corrected.

**Finding 2011 - 05: Catalogue of Federal Domestic Assistance Numbers (CFDA)**–CFDA 20.500 and 20.507 Federal Transit-Capital Investment Grants Cluster and CFDA 20.205 Highway Planning and Construction.

**Condition:** Four programs, including one major cluster program were identified with an incorrect CFDA number.

**Current Status:** This finding has been corrected.

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE STATE SINGLE AUDIT ACT****INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and Governing Board of Finance  
City of Stamford, Connecticut

**Compliance**

We have audited the City of Stamford, Connecticut's ("City") compliance with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that could have a direct and material effect on each of the City's major state programs for the year ended June 30, 2012. The City'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's management. Our responsibility is to express an opinion on the City'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'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's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2012.

**Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State Single Audit Act, 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's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the City's 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements, The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

*O'Connor Davies, LLP*

**O'Connor Davies, LLP**  
Stamford, Connecticut  
December 17, 2012

<b>State Grantor and Program</b>	<b>State Grant Program Identification Number</b>	<b>State Expenditures</b>
<b>Department of Education</b>		
Priority School District	11000-SDE64370-17043-82052	\$ 2,831,244
School Readiness and Child Care in Priority School Districts	11000-SDE64370-17043-82056	3,649,361
Magnet School operating - AITE	11000-SDE64370-17057-82062	2,989,850
Magnet School operating - Rogers	11000-SDE64370-17057-82062	2,037,040
Day Care Program	12060-SDE64220-12520	907,783
Day Care Program	12060-SDE64220-12520	136,738
<b>Office of Policy and Management</b>		
Payment in Lieu of Taxes on Private Colleges and General Hospitals	11000-OPM20600-17006	1,843,648
PILOT on State Property	11000-OPM20600-17004	1,303,760
Distressed Municipalities	11000-OPM20600-17016	1,607,494
Local Capital Improvements	11000-OPM20600-40254	1,582,456
<b>Department of Transportation</b>		
Town Aid Highway	12001-DOT57131-17036	\$ 587,083
Richmond Hill Bridge - Local Bridge Program	12001-DOT57161-42313	1,032,990
South End Street Improvements	12001-DOT57161-42313	2,361,425

**City of Stamford**  
Schedule of Expenditures of State Financial Assistance  
Year ended June 30, 2012

<b>State Grantor/ Pass Through Grantor Program Title</b>	<b>State Grant Program ID#</b>	<b>Expenditure</b>
<b>Department of Education</b>		
Priority School District	11000-SDE64370-17043-82052	\$ 2,831,244
Health Services -Non-Public	11000-SDE64370-17034	488,351
School Readiness and Child Care in Priority School Districts	11000-SDE64370-17043-82056	3,649,361
Quality Enhancement	11000-SDE64370-17097	62,080
Adult Education - Provider	11000-SDE64370-17030-84002	273,163
Adult Education - CEE	11000-SDE64370-17030-84004	31,474
Interdistrict Cooperative - AITE Summer Academy	11000-SDE64370-17045	59,157
Youth Services Bureau	11000-SDE64370-17052-82079	60,010
Youth Services Bureau Extra grant	11000-SDE64370-16201	10,000
Child Nutrition State Matching Grant	11000-SDE64370-16072	53,479
Primary Mental Health	11000-SDE64370-12198	22,800
Bilingual Education	11000-SDE64370-17042	171,059
Extended School Hours and Supportive Program	11000-SDE64370-17043-82054	288,215
School Accountability - Summer School	11000-SDE64370-17043-82055	334,365
After School Program - ALTA	11000-SDE64370-17084-82079	119,071
After School Program - TOR Titans	11000-SDE64370-17084-82079	119,071
Magnet School Operating - AITE	11000-SDE64370-17057-82062	2,989,850
Magnet School Operating - Rogers	11000-SDE64370-17057-82062	2,037,040
State School Breakfast	11000-SDE64370-17046	68,821
Vocational Agriculture	11000-SDE64370-17017	110,464
Magnet School Transportation	11000-SDE64000-17057	260,940
Day Care Program 135-CDC-40 10/11	12060-SDE64220-12520	136,738
Day Care Program 135-CDC-40 11/12	12060-SDE64220-12520	907,783
		<u>15,084,536</u>
<b>Office of Policy and Management</b>		
PILOT on Private Colleges and General Hospitals	11000-OPM20600-17006	1,843,648
PILOT on State Property	11000-OPM20600-17004	1,303,760
Distressed Municipalities	11000-OPM20600-17016	1,607,494
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17011	2,346
Property Tax Relief for Veterans	11000-OPM20600-17024	20,167
Elderly Freeze	11000-OPM20600-17021	6,666
Homeowner's Property Tax Relief	11000-OPM20600-17018	368,676
Local Capital Improvement	11000-OPM20600-40254	1,582,456
		<u>6,735,213</u>
<b>Department of Economic and Community Development</b>		
Tax Abatement 135-TA-Various	11000-ECD46400-17008-038	376,550
Payment in Lieu of Taxes 135-PILOT-39	11000-ECD46400-17008-039	307,676
		<u>684,226</u>
<b>State Library</b>		
Historic Document Preservation 135-OI-11	10000-CSL66094-35150	9,000
<b>Department of Public Safety</b>		
Telecommunications Fund/911 Enhancement	12060-DPS32740-35190	282,262

**City of Stamford**  
Schedule of Expenditures of State Financial Assistance  
Year ended June 30, 2012

(continued)

<b>Department of Public Health</b>		
Sexually Transmitted Diseases	11000-DPH48665-17013	\$ 26,768
AIDS Prevention 2009-0144	11000-DPH48500-12236	113,142
Tuberculosis Treatment 2007-0062-2	11000-DPH48500-16112	59,376
Per Capita Grant	11000-DPH48500-17009	<u>154,070</u>
		<u>353,356</u>
<b>Department of Transportation</b>		
Town Aid Highway Fund	12001-DOT57131-17036	587,083
Richmond Hill Bridge - Local Bridge Program	12001-DOT57161-42313	1,032,990
South End Street Improvements	12001-DOT57161-42313	2,361,425
Hope Street Reconstruction Design	12062-DOT57191-22108	31,492
Stillwater Rd. Reconstruction Design	12062-DOT57191-22108	9,379
Click it or Ticket	12062-DOT57343-22093	3,594
Elderly and Disabled Responsive Transportation	12062-DOT57931-35304	<u>28,096</u>
		<u>4,054,059</u>
<b>Department of Judicial Services</b>		
Motor Vehicle Fines	34001-JUD95162-40001	47,458
<b>Through the Connecticut Firemen's Association</b>		
Fire Training School	11000-FPC36510-16179	52,420
<b>Connecticut Department of Environmental Protection</b>		
Barrett Park Pedestrian Trail	12060-DEP44321-20296	4,900
Cumming Park Seawall and Pedestrian Path	12060-DEP43000-Various	<u>188</u>
		<u>5,088</u>
<b>Department of Mental Health and Addiction Services</b>		
Local Prevention Control 10/11	11000-MHA53000-12215	920
Local Prevention Control 11/12	11000-MHA53000-12215	<u>1,080</u>
		<u>2,000</u>
<b>Department of Public Health</b>		
Through the CT Assoc. Directors of Health (CADH)		
Bioterrorism Lab Development	11000-DPH48500-1227	2,748
Lead Poisoning Prevention and Control	11000-DPH48500-1227	<u>19,005</u>
		<u>21,753</u>
Total State Assistance Before Exempt Programs		<u>27,331,371</u>
<b>Exempt Programs</b>		
<b>Department of Education</b>		
Education Cost Sharing	11000-SDE64370-17041	8,066,574
Transportation of School Children	11000-SDE64370-17027	75,457
Nonpublic School Transportation	11000-SDE64370-17049	43,441
School Construction Projects-Principal	13010-SDE64370-40901	897,571
School Construction Projects-Interest	13009-SDE64370-40896	171,216
Special Education-Agency Placements I and Excess Costs	11000-SDE64370-17047	<u>3,113,190</u>
		<u>12,367,449</u>
<b>Office of Policy and Management</b>		
Municipal Revenue Sharing Manufacturing Transition	11000-OPM20600-35458	330,252
Municipal Video competition	12060-OPM20600-35362	<u>319,423</u>
		<u>649,675</u>
<b>State Comptroller's Office</b>		
Mashantucket Pequot Grant	12009-OSC15910-17005	<u>933,145</u>
Total Exempt Programs		<u>13,950,269</u>
Total State Assistance		<u>\$ 41,281,640</u>



City of Stamford, Connecticut

Notes to Schedule of Expenditures of  
State Financial Assistance

Year Ended June 30, 2012

The accompanying schedule of expenditures of state financial assistance includes state grant activity of the City of Stamford under programs of the State of Connecticut for the fiscal year ended June 30, 2012. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs.

**1. Summary of Significant Accounting Policies**

The accounting policies of the City of Stamford, Connecticut conform to accounting principles generally accepted in the United States of America as applicable to government agencies.

The information in the Schedule of Expenditures of State Financial Assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

***Basis of Accounting***

The financial statements for the governmental fund types contained in the City of Stamford, Connecticut basic financial statements are prepared on the modified accrual basis of accounting. The financial statements for the business-type activities are prepared on the full accrual basis of accounting.

The expenditures reported on the Schedule of Expenditures of State Financial Assistance are reported on the modified accrual basis of accounting while amounts relating to the business-type activities are reported on the full accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, 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 awards/expenditures column of the Schedule of Expenditures of State Financial Assistance.

As a result, certain classifications of revenue and expenditures under accounting principles generally accepted in the United States of America differ from classifications utilized for the Schedule of Expenditures of State Financial Assistance.

**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 State Financial Assistance shall include loans and loan activities. The following is a summary of the loan program activity for the year ended June 30, 2012:

City of Stamford, Connecticut

Notes to Schedule of Expenditures of  
State Financial Assistance

Year Ended June 30, 2012

2. Loan Programs (*continued*)

Department of Environmental Protection

Clean Water Funds 21104-OTT14230-4001

	<u>Balance</u> <u>July 1, 2011</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>June 30, 2012</u>
117-C	\$ 466,581	\$ -	\$ 136,560	\$ 330,021
375-C	241,278	-	43,214	198,064
414-D	1,769,153	-	181,230	1,587,923
414-D	<u>54,538,769</u>	<u>-</u>	<u>3,364,040</u>	<u>51,174,729</u>
	<u>\$ 57,015,781</u>	<u>\$ -</u>	<u>\$ 3,725,044</u>	<u>\$ 53,290,737</u>

City of Stamford, Connecticut

Schedule of Findings and Questioned Costs –State

Year Ended June 30, 2012

**I. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness (es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

**State Financial Assistance**

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  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 4-236-24 of the regulations to the State Single Audit Act?

yes  no

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

State Grantor and Program	State Grant Program Identification Number	State Expenditures
<b>Department of Education</b>		
Priority School District	11000-SDE64370-17043-82052	\$ 2,831,244
School Readiness and Child Care in Priority School Districts	11000-SDE64370-17043-82056	3,649,361
Magnet School operating - AITE	11000-SDE64370-17057-82062	2,989,850
Magnet School operating - Rogers	11000-SDE64370-17057-82062	2,037,040
Day Care Program	12060-SDE64220-12520	907,783
Day Care Program	12060-SDE64220-12520	136,738
<b>Office of Policy and Management</b>		
Payment in Lieu of Taxes on Private Colleges and General Hospitals	11000-OPM20600-17006	1,843,648
PILOT on State Property	11000-OPM20600-17004	1,303,760
Distressed Municipalities	11000-OPM20600-17016	1,607,494
Local Capital Improvements	11000-OPM20600-40254	1,582,456

City of Stamford, Connecticut

Schedule of Findings and Questioned Costs –State

Year Ended June 30, 2012

**I. Summary of Auditors' Results (continued)**

<b>State Grantor and Program</b>	<b>State Grant Program Identification Number</b>	<b>State Expenditures</b>
<b>Department of Transportation</b>		
Town Aid Highway	12001-DOT57131-17036	\$ 587,083
Richmond Hill Bridge - Local Bridge Program	12001-DOT57161-42313	1,032,990
South End Street Improvements	12001-DOT57161-42313	2,361,425

Dollar threshold used to distinguish between Type A and Type B programs: \$ 546,627

**II. Financial Statement Findings**

- We issued reports, dated December 17, 2012 on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
- Our report on compliance and other matters indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting indicated three significant deficiencies. See findings 2012-01, 2012-02 and 2012-03.

**III. State Financial Assistance Findings and Questioned Costs**

**A. Deficiencies in Internal Control**

None reported.

**B. Compliance Findings**

None reported.

City of Stamford, Connecticut

Schedule of Findings and Questioned Costs –State

Year Ended June 30, 2012

**IV. Prior Financial Statement Findings and State Financial Assistance Findings and Questioned Costs**

**11-1 – Schedule of Expenditures of State Assistance**

**Condition:** Auditors were initially unable to obtain a Schedule of Expenditures of State Assistance (SESA) for the audit period. The City’s personnel did not prepare the schedule.

**Current Status:** The SESA was prepared and is longer considered a significant deficiency. The finding was first reported in 2010.

**2011-01 – Year-End Closing Process and Communications**

**Condition:** In our review of the City’s records, we noted that key accounts requiring full accrual presentation with GASB Statement No. 34 were not reconciled and fully converted.

- The closing process was not complete.
- The property tax receivable, overpayments accounts, disputed assessments and related revenue accounts were not reconciled to the General Ledger.
- Schedules to support disputed tax assessments maintained by the Tax Department were not available to review by Controller’s Department.
- The liability for claims incurred were not reported in connection with the heart and hypertension claims and were not adjusted based on the report provided by the City’s third party administrator.
- The prior year accrual for state aid revenue receivable was not reversed.
- Certain of the school construction debt accounts were not recorded and did not agree with the underlying schedules.
- Schedules of educational and other grants receivable were not prepared and the related General Ledger accounts had not been analyzed.
- BOE encumbrances were not liquidated even though the goods and services had been received or performed.
- Information provided regarding pending litigation, asserted claims, and outside counsel retained to handle certain matters was incomplete.
- Loan balances relating to various loan programs administrated by the Community Development Program were not reflected in the General Ledger.
- Other Post Employment Benefits – Employee contributions from City retirees were not adjusted from their initial year of retirement throughout the fiscal year.
- General Ledger account coding structure does not provide sufficient information to properly review, reconcile, monitor and report activity.

**Current Status:** The liability for claims incurred but not reported with the heart and hypertension claims, the prior year accrual for state aid revenue receivable, BOE encumbrances and the General Ledger account coding structure were corrected and are no longer considered significant deficiencies. The other conditions remain uncorrected. Similar findings were noted in 2008, 2009 and 2010. See finding 2012-01.

**Management’s Response:** See attached Corrective Action Plan.

City of Stamford, Connecticut

Schedule of Findings and Questioned Costs –State

Year Ended June 30, 2012

**IV. Prior Financial Statement Findings and State Financial Assistance Findings and Questioned Costs (continued)**

**2011-02 – Old Town Hall Redevelopment Agency (OTHRA)**

**Condition:** The City does not have an adequate process in place to properly account for the complex nature of OTHRA's entities and there reporting requirements.

**Current Status:** Similar findings were noted in 2009 and 2010. See finding 2012-02.

**Management's Response:** See attached Corrective Action Plan.

City of Stamford, Connecticut

Independent Auditors' Report on Communication of  
Internal Control Related Matters Identified in the Audit

June 30, 2012

**Independent Auditors' Report on Communication of Internal Control Related  
Matters Identified in the Audit**

Board of Finance  
City of Stamford, Connecticut  
888 Washington Boulevard  
Stamford, Connecticut 06904-2152

In planning and performing our audit of the governmental activities, the business-type activities, the discretely presented component unit, trust funds, each major fund, and the aggregate remaining fund information of the City of Stamford, Connecticut ("City") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies, deficiencies that we consider to be control deficiencies and other observations and recommendations for strengthening internal control and/or operating efficiency. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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



The Exhibits set forth below and appended to this letter, include our required communications and various matters involving internal control that we identified during our audit.

- Exhibit A - Summary of communications required under generally accepted auditing standards
- Exhibit B - Deficiencies in internal control that we consider to be significant deficiencies
- Exhibit C - Control Deficiencies
- Exhibit D - Other Observations/Recommendations for Improving Internal Control and Operating Efficiency

Comments included in the Exhibits that are marked with an asterisk (“\*”) are comments that were included in our letter on internal control for the year ended June 30, 2011.

Our summary of communications, as required by generally accepted auditing standards, and our findings regarding internal control related matters associated with the operations of the Water Pollution Control Authority, the Classified Employees’ Retirement Fund, the Firefighters’ Pension Trust Fund and the Custodians’ and Mechanics’ Retirement Fund of the City will be provided in separate communications.

Management’s responses included in this letter have not been subjected to the auditing procedures applied in the audit of the City’s financial statements and, accordingly, we express no opinion on them.

This report, summary of communications and addenda are intended for the information and use of the Board of Finance and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. We will be pleased to discuss these communications in detail at your convenience, or to assist you in implementing the recommendations.

*O’Connor Davies, LLP*

**O’Connor Davies, LLP**  
Stamford, Connecticut  
January 25, 2013

City of Stamford, Connecticut

**Exhibit A - Summary of Communications**

- Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America
  - Unqualified opinion on financial statements
  - No change in scope of the audit
  - No material errors
  - Other than the matters brought to our attention, no other fraud or illegal acts identified
  - Other than the matters brought to our attention, no instances/suspicion or allegations of fraud were noted during conduct of audit
- Internal Accounting Controls
  - Reviewed to extent necessary to render our opinion on the financial statements
  - No material weaknesses noted
- Significant Accounting Policies
  - Accounting policies appear appropriate
  - Significant accounting policies included in Note 1 to the financial statements
  - No changes in accounting policies during the year
- Management's Judgments and Accounting Estimates
  - Estimates used deemed adequate
- Audit Adjustments
  - No significant unrecorded adjustments
- Other Information in Documents Containing Audited Financial Statements
  - Management's Discussion and Analysis appears reasonable
- Disagreements with Management
  - None
- Unresolved Difficulties Encountered in Performing the Audit
  - None

**Exhibit A - Summary of Communications (continued)**

- Consultation by Management with Other Accountants
  - None of which we were made aware
- Management Consulting Services
  - None
- Independence
  - O'Connor Davies, LLP is independent in all respects
- Irregularities or Illegal Acts
  - Other than the matters brought to our attention, nothing to report

**Exhibit B - Significant Deficiencies**

• **Process and Communication \***

At the commencement of our audit in mid-August, the year-end closing process was not complete. Account reconciliations and analyses had not been prepared for many accounts, and certain schedules, reconciliations and analyses had not been reviewed by supervisory personnel. In addition, as a large, complex organization, information required for financial reporting and maintaining proper internal control exists in various departments—the Tax Department, the Grants Department, Payroll, Office of Legal Affairs, Board of Education (“BOE”), etc.—within the City. This information is not always conveyed to the Controller’s Department. During our audit, many adjustments had to be made as a result of account reconciliations and analyses completed after the start of the audit or to correct errors resulting from information that was not available to the Controller’s Department through the ordinary course of business.

Among the issues noted or corrections required, many of which were commented on in 2011, were:

- The property tax receivable, overpayments account, disputed assessments and related revenue accounts are not routinely reconciled to the general ledger. The information is summarized by the Tax Department; however, the lack of communication between the Tax Department and the Controller’s Department leads to situations where the aforementioned accounts sub-ledgers are not reconciled to the general ledger.\*
- Transfers to the Mill River Capital Projects Fund and the Harbor Point District, affecting the property tax accounts, were not recorded by the City.
- Schedules to support disputed tax assessments maintained by the Tax Department were not available for review by the Controller’s Department.\*
- Certain of the school construction debt accounts were not reconciled and did not agree with the underlying amortization schedules.\*
- Schedules of educational and other grants receivables/deferred revenues were not prepared and the related general ledger accounts had not been analyzed.\*
- Because the closing process was not complete the entity-wide adjustments required for reporting in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 34 and for completion of the Comprehensive Annual Financial Report could not be made.\*
- Loan balances relating to various loan programs administered by the Community Development Program were not reflected in the general ledger.\*

**Exhibit B - Significant Deficiencies**

• **Process and Communication** \* *(Continued)*

We believe that several factors may have contributed to these issues, most significantly:

- Insufficient documentation and communication of accounting and financial reporting processes and procedures related to the year-end audit, including the lack of supervisory review as well as lack of clearly defined roles and responsibilities of each department and individuals within each department for maintaining, monitoring and sharing information.
- The lack of a well-defined and effective monthly, quarterly and annual closing process.
- The City Charter requires that the City's financial statements be prepared and submitted to the Board of Finance by September 30<sup>th</sup> of each year. Given that some of the information required for a complete and proper year-end closing is not available for as long as 60 days after year-end (i.e. August 31), the time frame to complete the year-end closing is extremely restricted.
- Some departments within the City operate independently of other departments and may not have a sufficient understanding of and/or accountability for the closing process and related accounting and reporting practices.

These conditions can have a negative impact on internal efficiencies of systems and may jeopardize effective financial reporting and internal control. We recommend that these issues be evaluated and that the appropriate corrective actions be implemented as soon as possible.

***Recommendation***

- An employee with the appropriate skills and background, or an outside consultant, should be tasked, on a full-time or nearly full-time basis, with identifying all key inter-departmental exchanges, developing and documenting appropriate accounting and financial reporting processes and procedures, building consensus and assigning and communicating responsibilities. The established procedures should be consistently reviewed and evaluated by an inter-departmental team of individuals, and adjustments should be made and communicated as appropriate to maintain continuous improvement over the long term.

***Management Response (1.1 - Responsibility of Controller's Department):***

*Management agrees with the issues noted and the recommendations made. Remediative actions were begun during F2012 with the scheduling of Controller's Council meetings (meeting with all department representatives who are part of the financial reporting process, including data originators) and the creation of a Year-End Closing Schedule by the Controller's Department. The Assistant Controller will create a monthly/quarterly*

**Exhibit B - Significant Deficiencies**

• **Process and Communication \* (Continued)**

***Management Response (1.1 - Responsibility of Controller's Department): (Continued)***

*version to use in conjunction with the balance of F2013. During that time, the Controller's Department staff's responsibilities will be revised to better align them with City's needs. Initial objective is to complete monthly closes within 45 to 60 days of each month-end.*

*Expected Remediation - Q3/Q4 F2013*

***Recommendation***

- Consider amending the City Charter to allow for a more realistic year-end closing schedule given the limitations on availability of certain information required for a complete and accurate year-end close by September 30th.

***Management Response (1.2- Responsibility of Controller's Department):***

*The City Charter was amended to provide an additional 30 days for the year end close process. The time period was extended to October 31st for subsequent years.*

*Remediated – Nov 2012*

***Recommendation***

- We continue to suggest that the Controller's Department develop and implement a formal year-end closing schedule that indicates specific personnel responsibilities and corresponding time requirements. Strict adherence to this schedule should be required because this will allow for the year-end work and audit preparation to be much less time-consuming and arduous process. Due dates would also be monitored so that the process stays on target for established time deadlines.

***Management Response (1.3 - Responsibility of Controller's Department):***

*The Controller's Department has already created a Year-End Closing Schedule (as noted in issue 1.1 above) which was used to manage work flow and coordinate handoffs of audit related information for the F2012 close. As the closing progressed, some deadlines were missed and cumulative downstream impact during the F2012 year-end close process indicated that processes and communication need further improvement and refinement in advance of the F2013 year-end close.*

*Expected Remediation - Q4 F2013, partially addressed already but needs additional work*

**Exhibit B - Significant Deficiencies**

• **Process and Communication \* (Continued)**

***Management Response (1.3 - Responsibility of Controller's Department): (Continued)***

***Recommendation***

- Proper interim account analysis be performed on a current basis and that more complete and timely accounting files be kept. Once again, this will allow the year-end close to be less time-consuming.

***Management Response (1.4a - Responsibility of Controller's Department):***

*Assistant Controller to work with Controller to develop monthly closing schedule (as noted above). Controller to review at the end of each month and perform quarterly financial reviews to identify areas and issues that may impact the year-end close.*

*Expected Remediation - Q3 F2013*

***Management Response (1.4b - Responsibility of Controller's Department):***

*Regarding the issues raised with respect to: property taxes receivable, overpayments, disputed assessments, and related revenue accounts not being reconciled to GL; disputed assessments schedule not being sent to Controller's Department for review; and, transfers for Mill River and Harbor Point not being recorded by the City, the Assistant Controller will work with the Tax Department to better understand the key informational exchanges that need to be improved. The Controller's Department notes that year-over-year Tax Department had dramatically improved the timing of the production of key reports and audit-related informational requests. Issues related to the recording and timing of adjusting journal entries will be the focus of the Assistant Controller's review.*

*Expected Remediation - Q4 F2013*

• **Old Town Hall Redevelopment Agency ("OTHRA")\***

OTHRA was created to help finance the redevelopment of the Old Town Hall in downtown Stamford. To take advantage of funds available through Federal tax credits – the New Markets Tax Credit and the Historic Tax Credit – the transaction required a very complex structure of entities. These entities include, among several others, Old Town Hall Manager, Inc. ("OTH Manager"), which is owned 99.9% by the City, and Old Town Hall QALICB, LLC ("QALICB"), which is owned 90% by OTH Manager. During the fiscal year ended June 30, 2009, the City sold the Old Town Hall property to QALICB. OTH Manager was responsible for managing the renovation of the Old Town Hall and is responsible for the overall management of the property going forward. In addition to tax credits, the project was financed by direct and indirect loans from the City.

**Exhibit B - Significant Deficiencies**

• **Old Town Hall Redevelopment Agency (“OTHRA”)\*** *(Continued)*

In conducting our audit, we noted several accounting issues relating to OTHRA:

- Accounting entries related to OTHRA activity were not being properly recorded in the City’s accounting records. Certain transactions in the OTHRA Fund are duplicative of information that is, or should have been; recorded in the books of OTH Manager and QALICB, and interfund activity with the Capital Projects Fund and the General Fund was not reflected in the OTHRA Fund.
- Advances in the amount of \$3.9 million were made by the City to OTH Manager and QALICB in fiscal 2011 and approximately \$120K was advanced in fiscal 2012 from the General Fund in order to cover construction costs and operating deficits; however, we did not see evidence that these advances or appropriations were approved in accordance with City requirements.
- Pending claims for cost overruns by the construction contractor are delaying the receipt of a final certificate of occupancy and the New Markets and Historic Tax Credits.
- Old Town Hall Master Tenant was not billed for rent in accordance with the rental agreement. (A cumulative invoice was prepared late in fiscal 2011, and we understand that invoices are now being prepared monthly, as required.)
- The annual audits of OTH Manager and QALICB, as required by the underlying legal documents, were not performed.
- A bank account not owned by the OTHRA Fund is reflected in the fund’s accounts.

In addition to the accounting issues, there are some significant operating and strategic issues relating to OTHRA. At the time the OTHRA project was conceived, it was anticipated that, upon completion of construction, the Old Town Hall building would be leased, generating sufficient rent to cover all operating and interest / debt service costs associated with the project. It was also anticipated that the project would benefit from the in-flow of cash from the New Markets Tax Credit and the Historic Tax Credit. Unfortunately, the building was not leased during the year and, due at least in part to the delay in obtaining a final certificate of occupancy (because of the pending dispute with the contractor), the project was delayed in qualifying for the New Markets or Historic Tax Credits.

Some of the issues outlined above are due, at least in part, to the complexity of the OTHRA transaction and funding arrangements. Other issues (e.g. lack of tenants/rentals) may be attributable to the downturn in the economy and weak real estate market. Nonetheless, these are significant issues that should be addressed by management in the near term.



**Exhibit B - Significant Deficiencies**

• **Old Town Hall Redevelopment Agency (“OTHRA”)\*** *(Continued)*

***Recommendation***

- City officials should seek the advice of qualified legal counsel regarding the operational and other issues related to OTHRA in order to fully understand the legal and other requirements for operating OTHRA, including any corrective actions that may now be required and the implications of noncompliance, if any, with any of those requirements.

***Management Response (2.1 - Responsibility of OTHRA Board and OTHRA Liaison):***

*The OTHRA Board has retained legal counsel to represent its interests in the litigation matters regarding the contractor suit as well as matters regarding leases and other operational issues.*

*Remediated – Nov 2012*

***Recommendation***

- A definitive decision should be made by management regarding the continued funding of OTHRA’s capital and operating deficiencies by the City. Such funding should require a loan agreement between the City and OTHRA.

***Management Response (2.2 - Responsibility of OTHRA Board and OTHRA Liaison):***

*Management agrees with the issue noted and the recommendation made. The Board had prepared a future cash flow report indicating that by calendar year 2015 the operation will be breakeven and moving forward into profitability where there will be no need for financial support from the City.*

*Expected Remediation - Q4 F2013*

***Recommendation***

- The accounting and administrative responsibilities associated with OTHRA, OTH Manager, QALICB and other related entities should be more clearly identified and assigned. If the City is to be responsible for performing certain of these tasks, those tasks should be documented in a written agreement between the City and OTH Manager.

**Exhibit B - Significant Deficiencies**

• **Old Town Hall Redevelopment Agency (“OTHRA”)\*** *(Continued)*

***Management Response (2.3 - Responsibility of OTHRA Board and OTHRA Liaison):***

*Management agrees with the issue noted and the recommendation made. The Senior Accountant in the Controller’s Department will work with OTHRA Liaison (and Board) to keep financial records up-to-date and in sync with Assistant Controller’s monthly closing schedule.*

*Expected Remediation – Q3 F2013*

***Recommendation***

- Management should be sure that prospective tenants meet the eligibility requirements under the tax credit programs (e.g. we understand there is a limitation on the percentage of space that can be leased to not-for-profit entities).

***Management Response (2.4 - Responsibility of OTHRA Board and OTHRA Liaison):***

*The entire space is now rented. The majority of the space is occupied by the Stamford Innovation Center, a for-profit organization, under a ten year lease, which will assure the requirement that the space be majority occupied by for-profit companies to qualify for the tax credit program.*

*Remediated – December 2012*

• **Internal Service Fund – Risk Management**

The Risk Management Internal Service Fund reflects workers’ compensation claim liabilities, which are based upon estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported, but not settled. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors.

**Exhibit B - Significant Deficiencies**

• **Internal Service Fund – Risk Management** (*Continued*)

During our audit, we noted that the City was self-insured for workers' compensation and heart and hypertension claims and had recorded a liability of approximately \$8 million for workers compensation claims at June 30, 2012. This amount recorded for the City's reported but unpaid workers' compensation claims was provided by the City's third party administrator. The City has not had an actuary calculate incurred but not reported (IBNR) claims for workers' compensation. Additionally, heart and hypertension claims for police officers and firefighters are covered, as required by State statutes. Costs associated with these risks are reported in the Risk Management Internal Service Fund which is funded by the General Fund. The heart and hypertension claim liabilities totaling approximately \$5 million are recorded at the entity-wide level and not the Risk Management Fund. This amount recorded for the City's reported but unpaid heart and hypertension claims was also provided by the City's third party administrator. The City has not had an actuary calculate incurred but not reported (IBNR) claims for heart and hypertension claims.

***Recommendation***

- We recommend the City engage the services of an actuary to calculate the incurred but not reported workers' compensation and heart and hypertension claims to assist in providing an evaluation of potential liability for the utilization by the City to fund the City's incurred but not reported claims liability.

***Management Response (3.1 - Responsibility of Risk Management):***

*Management agrees with the issue noted and the recommendation made. The City's current Risk Management/Third Party Agreement ("TPA") contract expires July 1, 2013. New Request for Proposal ("RFP") for Workers' Compensation TPA has amended the scope of services which includes engaging an external actuary to review all reserves on at least an annual basis. Until July 1, 2013, quarterly audits will be completed and expenditures and reserves are being followed closely.*

*Expected Remediation – Q4 F2013*

• **General Ledger Account Coding\***

During our audit we noted several areas where the general ledger account coding structure does not provide sufficient information to properly review, reconcile, monitor and report activity.

**Exhibit B - Significant Deficiencies**

• **General Ledger Account Coding\*** (*Continued*)

*City Medical Fund*

The trial balance for the City Medical Fund lacked appropriate detail for revenue and expenses. All contributions were posted to a single revenue account and certain expenses are also combined, which makes it very difficult to identify the sources of revenue and the nature of expenditures.

At a minimum, we believe the following should be separately broken out within the general ledger:

- Receipts from employee contributions
- Receipts from COBRA payments
- Reimbursements received from the Urban Renewal Commission (“URC”), grants, CDP or capital reimbursement
- Reimbursements from the Board of Education for Classified Employees
- Stop loss reimbursements
- Other miscellaneous income
- Medical insurance claims paid
- Payments to employees who opt out of the medical insurance coverage

*City Medical Fund*

***Recommendation***

- Expand the chart of accounts to provide more separation within revenue sources and expense items.

***Management Response (4.1 - Responsibility of the Office of Policy and Management (“OPM”)):***

*Chart of accounts expanded as recommended.*

*Remediated – Q1 F2013*

***Recommendation***

- Set-up proper accounts in the medical funds’ chart of accounts to properly track retiree and active employee revenues and expenditures.

**Exhibit B - Significant Deficiencies**

• **General Ledger Account Coding\*** *(Continued)*

*City Medical Fund (Continued)*

**Management Response (4.2 - Responsibility of the OPM):**

*Accounts have been set-up as recommended for the Medical Fund.*

*Remediated – Q1 F2013*

*OPEB Trust Revenues and Expenditures*

Currently, all revenue and related costs for retiree medical benefits are accounted for as part of the City and BOE Medical Funds. The revenues and costs associated with the retiree population are flowed into and then out of these medical funds and into the Other Post Employment Benefits (“OPEB”) Pension Trust Fund. The fact that both active and retiree benefits are processed through the same fund could lead to retiree costs being misclassified as active employee costs and vice versa. The BOE Medical Fund does not currently use separate expenditure accounts for retiree costs. It relies on an employee of the BOE to manually track the costs.

*OPEB Trust Revenues & Expenditures*

**Recommendation**

- We recommend that these revenues and related costs be recorded directly in the OPEB Pension Trust Fund’s general ledger.

**Management Response (4.3 - Responsibility of OPM):**

*Revenues and expenses are being directly recorded in the OPEB accounts.*

*Remediated – Q1 F2013*

**Recommendation**

- The City’s and BOE Medical Funds’ account balances should be reconciled with the OPEB Pension Trust’s account balances when revenues and expenses are recorded to ensure all the retiree activity has been properly posted in the OPEB Pension Trust Fund.

**Exhibit B - Significant Deficiencies**

• **General Ledger Account Coding\*** (Continued)

*OPEB Trust Revenues & Expenditures (Continued)*

**Management Response (4.4 - Responsibility of Controller's Department):**

*The Controller's Department agrees that a single transfer was not properly cleared prior to the year-end closing. That amount was properly reflected in the financial statements as a due to / due from the respective funds. To the best of our knowledge, there were no other "unreconciled amounts" identified by the auditors.*

*Expected remediation – Completed September 2012 (Q1 F2013)*

**Recommendation**

- The detailed costs associated with retirees should be reviewed monthly to ensure that the costs are posted correctly in the general ledgers of both the City and BOE Medical funds.

**Management Response (4.5 - Responsibility of OPM):**

*OPM is currently reviewing costs on a monthly monthly/quarterly basis to ensure proper accounting.*

*Remediated – Q2 F2013*

• **Cash Management - Pooled Cash Arrangement**

While performing our audit of cash accounts, we noted that the City does not maintain separate accounts for all of the custodial cash accounts as well as the cash accounts for general operations. In this instance we would agree with the City that separate accounts require a significant amount of time be spent on the monthly accounting responsibilities and it weakens the overall cash controls due to the number of accounts maintained.

The City uses a pooled cash arrangement whereby one general operational account is used to record receipts and disbursements and account for the cash balances of several different City funds and individual general ledger accounts to track the share of the pooled cash account "owned" by each separate fund. The operating bank account of a cash flow system is the major link of internal accounting controls over cash receipts and cash disbursements; if operating activity is handled through more than one bank account, internal controls tend to be weakened. Any necessary segregation for each respective fund's activity can be accomplished through the accounting records.

**Exhibit B - Significant Deficiencies**

• **Cash Management - Pooled Cash Arrangement** *(Continued)*

While pooled cash arrangements are often acceptable and widely used in practice, we believe this pooled cash arrangement contributes to a lack of transparency. We believe that monies received from bonding of capital projects should be segregated from operational receipts. The co-mingling of operating receipts with bonded capital projects receipts has caused some confusion and has caused members of the Board to question the remaining amount of unspent bond proceeds. By co-mingling unexpended bond funds in the pooled cash account and in certain instances, advancing such funds to cover expenditures which are to be ultimately claimed from Federal and/or State sources, it has been difficult for the City to ascertain the remaining amount of unexpended bond funds.

In addition, as funds are loaned or advanced to the WPCA and OTHRA, the necessary receivables and payables (due from and due to accounts) are not appropriately adjusted and allow the pooled cash in those respective funds to become negative. The necessary adjustments are proposed and recorded by management only at year-end to reflect such inter-fund assets and liabilities for each respective fund. These cash advances are not expressly authorized by the Board's of Finance and Representatives.

***Recommendation***

- We continue to recommend that separate cash accounts be maintained for proceeds received from bonds issued for capital projects. Additionally, consideration should be given to establishing a separate capital projects fund for each year of borrowing which will help provide segregation of bond proceeds and assist in the calculation of unspent bond proceeds. Such information is needed to determine the City's investment in capital assets, net of related debt as well as recording amounts restricted for capital projects. Additionally, inter-fund loans should have prior authorization from the appropriate Boards.

***Management Response (5.1& 5.2 - Responsibility of Controller's Department):***

*Management disagrees with the observation that there is a "lack of transparency for operating vs. capital funds." Information is properly documented and accounted for, for all transactions for all funds and they are appropriately identified and coded for general ledger purposes. The General Fund will continue to advance cash to the Capital Projects Fund, as needed for properly authorized capital projects, in anticipation of replenishment by any pending new bond issuance. Additionally, there are already separate bank accounts in use for WPCA operations, OTHRA and Mill River. That said, as recommended by the Financial Policy Committee and voted on by the full Board of Finance (on January 10, 2013), the City will maintain separate bank accounts for the Capital Projects Fund (for bond proceeds), the Capital Non-recurring Fund, and the Rainy Day Fund in addition to the separate bank accounts it already maintains for the Debt Service Fund. In addition, on behalf of the SWPCA, the Administration will open a separate Capital Projects Fund bank account (for new bond proceeds) so that the funds are segregated from the City's bond proceeds.*

*Expected remediation – Q3 F2013*

**Exhibit C - Control Deficiencies (continued)**

• **GASB Statement No. 34 - Entity-Wide Transactions**

*Capital Asset Records*

Capital assets (net of accumulated depreciation) amount to approximately \$699 million at June 30, 2012. The current year additions and deletions are a vital component of the GASB Statement No. 34 conversion of the City's fund level statements to full accrual entity-wide statements. In order to record, reconcile and depreciate the City's capital assets, a system needs to be in place in which capital asset transactions are properly recorded on a timely basis and properly segregate additions, deletions, transfers from construction in progress and transfers between funds. Extensive time was spent subsequent to year end by management and the auditors reviewing the reports and arriving at current year additions as well as properly reflecting current year depreciation expense to produce an accurate report. Certain differences related to prior year adjustments and reclassifications that were not posted to the sub-ledgers. The City's Accounting Policies and Procedures Manual doesn't adequately and consistently address the control process over the recording of capital additions, deletions and transfers or the preparing of any necessary reconciliations.

***Recommendation***

- Maintaining capital asset records is one of the most basic of internal controls that any organization with significant capital assets should have in place. The lack of such a record makes it difficult to ensure that the financial statements are presented fairly as well as ensuring that the proper amount of insurance is in place to protect the City against loss. We recommend that the City maintain the detailed capital asset records and reconcile these records to the general ledger on a timely basis, at least quarterly, to ensure accurate accounting for assets. Complete information for all capital assets provides excellent control for the safeguarding of these assets, which are material to the City's financial statements. The assessment and evaluation now can be made regarding the reliability of certain capital assets and the need for replacements.

***Management Response (6.1 - Responsibility of Controller's Department):***

*The Controller's Department will implement this recommendation through the redistribution of responsibilities within the department. Upon reassignment, the control processes and procedures will be documented (and added to the City's Accounting Policies and Procedures Manual at the next revision date).*

*Expected remediation – Q4 F2013*



**Exhibit C - Control Deficiencies**

• **GASB Statement No. 34 - Entity-Wide Transactions** (*Continued*)

***Procedures for Disposal of Capital Assets***

The City does not have a formal policy and procedure to ensure that disposals of capital assets are reported to the accounting department as they occur. This often leads to a situation where capital assets that physically exist within the City and its asset listing are completely out of synch. For the year ended June 30, 2012, the City had not recorded any deletions.

***Recommendation***

- A formal policy to ensure the reporting of capital asset disposals should be adopted and should include the necessary level of approval for the disposal. This information should be reported to the accounting department on a timely basis. A simple standardized form could be developed to provide adequate accounting documentation and to provide evidence of adherence to City policy.

***Management Response (6.2 - Responsibility of the Director of Operations):***

*Management agrees with the issue noted and the recommendation made. Effective immediately, the new process is as follows:*

- *Assets or equipment (trucks, equipment, tools, etc...) to be sold at auction will first be matched with the identifying asset number assigned to them by the Controller's Department at time of purchase (M. Scacco to request from J. Hussey).*
- *Items sold at auction will be reported promptly to OPM and the Controller's Department via e-mail from Operations (M. Scacco) with the identifying asset number and net sale price indicated so that the items can be identified as disposals in the City's fixed asset records (J. Hussey).*
- *Items sold for scrap will also be reported on a timely basis to the Controller's Department (J. Hussey) by Operations (M. Scacco) with their identifying asset number.*
- *For sales and disposals without identifying asset numbers, but with a disposal value in excess of \$5K, Operations (M Scacco) will make an attempt to determine the year of acquisition of the items so that the Controller's Department (J. Hussey) can make a determination if the City's fixed asset records require adjustment to reflect the disposal.*
- *The sale or disposal of City assets must be conducted and accounted for as required by the City Charter (Sec. 23-18-13).*

*Expected remediation – Q3 F2013*

**Exhibit C - Control Deficiencies**

• **General Fund**

***Smith House: Financial Management Practices\****

Accounts Receivable/Allowances and Deferrals:

Our audit disclosed that there is approximately \$1.73 million (net of allowance and 60 day collections) of significantly past due receivables, the majority of which pertain to the Smith House nursing facility. Although an allowance has been established, it should not preclude the City from utilizing all available collection efforts. Improved collections will increase the availability of funds and improve cash flow.

***Recommendation***

- The billing and collection process at the nursing facility is complex and it appears that there is not sufficient staff, or inadequately trained/qualified staff in place to effectively manage the accounts receivable process. Since collectability of these receivables is not assured, an allowance for uncollectible amounts has been established, net of collections received within the first sixty days after the end of the fiscal year. As mentioned, this should not preclude the City from utilizing all available collection efforts. The City should consider hiring additional staff to assist in the management of accounts receivable at the Smith House nursing facility. Alternatively, the City might consider outsourcing the entire billing and collection process. This comment is repeated from our prior year's letter.

***Management Response (7.1 - Responsibility of Smith House Executive Director):***

*Management agrees with the issue noted and the recommendation made. The hiring of the Smith House Finance Manager will be completed within the first quarter of the calendar year 2013. That individual's duties will include HTE general ledger accounting and monthly financial reporting. They will have overall responsibility for billing and collections of accounts receivable, expense approval and submission to the City's accounts payable department, and interdepartmental interaction to insure payer identification for all services provided by the facility are billed accurately and reconciled accordingly. Timely assessment of potential collection issues as well as supervision of all ancillary staff involved in the Accounts Payable, Resident Trust and other areas as assigned will also be overseen by this Manager level person.*

*Expected remediation – Q3 F2013*

**Exhibit C - Control Deficiencies**

• **General Fund** *(Continued)*

**Smith House: Financial Management Practices\*** *(Continued)*

*Limited Segregation of Duties:*

The Smith House nursing facility is a relatively small, remote operation, with limited staff. As a result, there are several areas where the ability to adequately segregate duties is limited. A limited segregation of duties increases the risk for both errors and defalcations.

Limited segregation of duties is often a very difficult issue to deal with, as the costs of hiring additional staff can be greater than the risks associated with the limited segregation of duties. Strong budgetary controls and financial oversight are often effective in detecting operating anomalies which could be the result of errors or defalcation. Also, a City-wide Internal Audit function is another effective control.

**Recommendation**

- We recommend that the City review its opportunities for limiting its risk by providing for a greater segregation of duties at the Smith House nursing facility. Significant areas where we believe there is limited segregation of duties, and it should be strengthened, include:
  - Payroll processing
  - General disbursements, particularly with regard to food services, housekeeping and general supplies, where blanket purchase orders are used
  - Processing of cash receipts for insurance reimbursements and family contributions

This recommendation is repeated from our prior year's letter.

**Management Response (7.2 - Responsibility of Smith House Executive Director):**

*The hiring of a Finance Manager and the potential hiring of a Billing Coordinator will allow for greater internal segregation of duties. It will also allow for further assistance with scrutiny of the payroll, payables and cash receipts processing. Delegation of duties and accountability to specific positions and oversight of these responsibilities will be one of the first charges for the positions noted above. Further monitoring will be conducted by the Executive Director to assure compliance.*

*Expected remediation – Q3 F2013*

**Exhibit C - Control Deficiencies**

• **Component Unit - Urban Redevelopment Commission (“URC”)**

***Accounting and Financial Reporting\****

*Receivables/Payables with the City:*

During our audit procedures, we identified several receivables and payables between the URC and the City. Per our inquiries of management of both the URC and the City, neither could provide an explanation or supporting documentation as to what comprises certain balances.

***Recommendation***

- We recommend that the City and the URC undertake investigations to determine what these balances represent, come to a mutual understanding of the composition of these balances, and formulate a resolution as to how these balances are to be settled. This recommendation is repeated from our prior year’s letter.

***Management Response (8.1 - Responsibility of URC):***

*Management agrees with the issue noted and the recommendation made. URC representative has provided historical prospective and supporting documentation for balances related to this issue to the Controller's Department (and to external auditors). URC will work with Controller's Department to document balances and make adjustments as needed.*

*Expected remediation – Q4 F2013*

***Account Balances and Supporting Documentation:***

During our audit procedures, we identified several accounts on the URC’s balance sheet that management was unable to provide sufficient explanation or documentation. These accounts include land, escrow accounts payable and deferred grants revenue. While management provided us a list of the property held, it could not provide us with the acquisition costs. This comment is repeated from our prior year’s letter.

***Recommendation***

- We recommend that the City and the URC determine what land acquisition costs are captured in their land account and if the balance currently presented is an accurate representation of those costs; for whom this escrow account is being held, and if the funds should be returned to them, continue to be held, or be released from restriction for the URC to utilize; and determine what the deferred revenue pertains to and if it should have been recognized, will be recognized at a future point in time, or does it need to be returned to the party issuing the grant.

**Exhibit C - Control Deficiencies**

- **Component Unit - Urban Redevelopment Commission (“URC”) (Continued)**

***Accounting and Financial Reporting\* (Continued)***

*Account Balances and Supporting Documentation: (Continued)*

***Management Response (8.2, 8.3, & 8.4 - Responsibility of URC):***

*Management agrees with the issue noted and the recommendation made. A URC representative has provided historical prospective and supporting documentation for balances related to this issue to the Controller's Department (and to external auditors). URC will work with Controller's Department to document balances and make adjustments as needed.*

*Expected remediation – Q4 F2013*

- **City - Wide**

***Fund Deficits***

Deficits place a financial burden upon a municipality. They are either created by expenditures in excess of budgetary provisions or revenue shortfalls. The effects of deficits are varied but their initial impact will generally be felt on cash flow. The financial statements of the City reflect deficits in the following funds.

Internal Service:	
Risk Management	\$ 2,470,779
Disputed Assessments	30,740
Parking	692,162

These deficits coupled with the economic volatility associated State and Federal funding and increases in litigation and insurance costs will require the City to consider a variety of options in balancing future budgets. Management has communicated to us that they intend to cover these deficits with year-end surplus generated in the General Fund.

***Recommendation***

- We suggest that the City continue to monitor its operations to ensure that these deficits are reduced or eliminated.

***Management Response (9.1 - Responsibility of OPM):***

*Fund balances are being monitored throughout the year and Management has committed the necessary funding from year-end General Fund surplus.*

**Exhibit C - Control Deficiencies**

• **City - Wide** (*Continued*)

***Parking Fund***

Policies and Procedures Regarding Additional Appropriations

In June 2012, the Board of Finance approved an appropriation of \$176,500 for additional expenditures for the Parking Fund. The Office of Policy and Management advised the Board of Finance that the appropriation amount was needed in order to pay for additional hours of operation due to the extension of garage hours. The budget was amended for this additional appropriation and the amount was accrued and charged to the 2011-2012 fiscal year. The bill was subsequently paid on July 3, 2012. On July 9<sup>th</sup>, 2012 it was presented to the Board of Representatives which did not approve such funding at that time.

***Recommendation***

- Since amendments to the budget and payment of expenditures involves the approval of both the Board of Finance and the Board of Representatives, such additional appropriation should not have been recorded in the books and records and such payment should not have been made in July 2012, in accordance with the City's policies and procedures. Such appropriation was presented again to the Board of Representatives on August 6, 2012 and was approved at that time.

***Management Response ( 9.2 - Responsibility of OPM):***

*Except for the specific instance as noted above in the Parking Fund and the extension of the operation of the garages, expenditures are not made without sufficient revenues or appropriately approved funding.*

*Remediated – N/A*

***Journal Entry Authorization and Support***

In addition to the numerous cash receipts and disbursements that get posted each year to the accounting records, a significant amount of journal entries are also processed by accounting personnel. These journal entries, or adjustments, can range from minor to material amounts. During the audit, it was noted that certain journal entries do not appear to be signed off and approved by the Controller or supervisory personnel. In many instances, the accountant prepares the journal entry and also signs-off on the entry.

**Exhibit C - Control Deficiencies**

• **City - Wide** *(Continued)*

***Journal Entry Authorization and Support*** *(Continued)*

***Recommendation***

- We recommend that procedures be implemented whereby all journal entries evidence the fact of supervisory approval. The City can set different approval parameters based upon the materiality of the adjustment.

***Management Response (10.1 - Responsibility of Controller's Department):***

*The Assistant Controller is responsible for reviewing and approving all journal entries. During the course of the year-end close, the Assistant Controller may take on the task of preparing a specific journal to keep the close moving forward. If the Controller is not available, the Assistant Controller may not get the entry reviewed and approved prior to having it entered. Going forward, the Assistant Controller will seek out the Controller (or the Director of Administration, if needed) for a separate and timely written approval in accordance with established policies.*

*Expected remediation – Q4 F2013*

• **Allocation and Approval of Bond Proceeds**

The City utilizes a Debt Service Fund to account for the redemption of principal and interest on long-term debt. The funding for such repayments comes from charges to the various operating funds, primarily the General Fund. The charges to each fund are based on an allocation provided by a third party financial institution and approved by the City. Such allocations have been modified to coincide with the useful life of the asset acquired with the bond proceeds.

During our audit, we noted in certain instances that proceeds have been advanced to cover expenditures for capital projects which are to be funded, in part, with Federal and/or State aid. Such Federal or State grants are claimed for on a cost reimbursement basis meaning that the funds have to be spent in order to be claimed for reimbursement. Such tracking of these advanced funds is not occurring between the Controller's Department and the Grants Department.

In addition, the City has, in the current year, issued Special Obligation Tax Increment Revenue Bonds for the Mill River capital project for which the City does not have an adequate process in place to record such transactions. Adjustments were necessary to record such financial activity, the related capital outlay expended, reimbursement to the City for the Mill River capital projects expenditures originally financed by general obligation bonds, debt service costs incurred in the current year as well as the recording of capital and debt service restrictions all of which related to the Mill River Corridor project.

**Exhibit C - Control Deficiencies**

• **Allocation and Approval of Bond Proceeds** *(Continued)*

**Recommendation**

- We continue to suggest that the City perform a comprehensive review of the debt service allocations prepared by the third party financial institution.

**Management Response (11.1 - Responsibility of OPM):**

*The City is already allocating at the time of debt issuance. The City started allocating project specific bonds in FY 2010/2011 and will continue to do so for future bond issues. The City does not agree that a retroactive review of the allocation of debt service based on past practice of cash flow financing will yield any value.*

*Remediated – N/A*

**Recommendation**

- The City must include a tracking mechanism for Federal and/or State grants to determine if in fact the total amounts of Federal and/or State grants have been claimed for and received.

**Management Response (11.2 - Responsibility of OPM):**

*The Assistant Controller will be working with the Grants Department to track Federal and State grants filed and received.*

*Expected remediation - Q4 F2013*

**Recommendation**

- We recommend that the City implement a checklist whereby such activity relating to the Special Obligation Tax Increment Revenue Bonds is recorded properly in accordance with governmental auditing standards. A tremendous amount of time was devoted to dissect the co-mingled accounts and transactions, suggests that the City perform a comprehensive review of the debt service allocations prepared by the third party financial institution.

**Management Response (11.3 - Responsibility of Controller's Department):**

*As noted above, the Assistant Controller will be working with Controller to develop monthly closing schedule. The checklist will be developed and incorporated into the monthly closing schedule going forward.*

*Expected remediation – Q4 F2013*



**Exhibit C - Control Deficiencies**

• **Capital Projects Fund**

***Project Length Schedule from Inception***

Governments often acquire or construct major capital facilities that either help the government provide services to its citizens or serve the needs of citizens directly. In either case, a financial reporting vehicle is needed to demonstrate compliance with legal and contractual provisions and to compile certain cost data which may span several fiscal years. The Capital Projects Fund provides such a mechanism.

Many governments establish an annual capital improvement program and include the program in their annual operating budget, while others adopt project length budgets for their projects and rely on mechanisms such as bond indentures to ensure proper control over expenditures. No matter which method is chosen, governments need to ensure that budgetary compliance is demonstrated in their financial reports.

Annual appropriation budgets for capital projects or project-length budgets should be included in the presentation of a government's Capital Projects Fund in compliance with generally accepted accounting principles. This project length schedule should include the budget, expenditures to date, revenues received by type, inclusive of Federal and State grants, to date and fund balance.

***Recommendation***

- Our audit disclosed that the tracking of capital projects as described above has begun in conjunction with the debt administration process. We continue to recommend that the City prepare the recommended schedules for all City capital projects to demonstrate compliance with legal and budgetary constraints as well as the City Charter. Given that the City has a tremendous amount of capital projects that are current and may span over several years, consideration should be given to creating a full-time project management function to oversee the City's capital projects.

***Management Response (12.1 - Responsibility of OPM):***

*OPM works closely with Bond Counsel to properly identify all capital allocations and the expenditures of those allocations to ensure full compliance with all legal requirements. OPM will prepare schedules prospectively in conjunction with quarterly capital spending beginning with the report for Q1 F2013.*

*Expected remediation – Q2 F2013*

**Exhibit C - Control Deficiencies**

• **Capital Projects Fund** (*Continued*)

***Retainage Payable\****

Retainage payable, which represents amounts withheld from contractors for completed work pending satisfactory approval of their phase of a construction project, should be classified as expenditures and recorded on the books of account simultaneously with the payment to the contractor.

Our audit of the Capital Projects Fund disclosed that this process is not being adhered to and retainages are not being recorded in a timely manner. We also noted that the year-end adjustment to the retainage payable liability in the amount of \$1.1 million was recorded to one expenditure code rather than to the specific expenditure line items of the individual capital projects to which they relate.

***Recommendation***

- Retainage payable amounts should be recorded simultaneously with the accounts payable process to reflect the total costs of a capital project at any given time during the fiscal year.

***Management Response (12.2 - Responsibility of Controller's Department):***

*Comment was applicable to prior fiscal year. Retainage payable schedules are updated quarterly (since Q2 F2012) and reviewed by the Assistant Controller.*

*Remediated – Q2 F2012*

***Accounts Receivable, Amounts Due from State and Related Deferred Revenue***

During our testing of accounts receivable and related deferred revenue, we noted certain capital projects for which expenditures were incurred and grants filed for reimbursement, however, the respective accounts receivable/revenue accruals were not recorded.

***Recommendation***

- The management of accounts within the general ledger is essential to accurate financial reporting. Proper internal controls should be in place to provide for accurate and timely reconciliation of account balances to subsidiary records.

**Exhibit C - Control Deficiencies**

- **Capital Projects Fund** (*Continued*)

***Accounts Receivable, Amounts Due from State and Related Deferred Revenue***  
***(Continued)***

***Management Response (12.3 - Responsibility of Grants Department):***

*Management agrees with issues noted and the recommendations made. The Grants Office will provide a monthly report within 30 days of each month-end to the Controller's Department of grant applications filed, including highlighting new applications files and any changes in applications that were previously reported. The Controller's Department will issue a quarterly report of federal and state revenue received to be used by the Grants Department to reconcile grant accounts to the general ledger. The Director of Administration will be asked to notify all City departments that reimbursement requests for and/or receipt of federal and state funding must be reported to the Grants Department for inclusion in their monthly report.*

*Expected remediation – Q3 F2013*

- **Application of Bond Proceeds and Federal/State Grants**

There appears to be a communication gap between the Controller's Department (Finance) and the Grants Department regarding the application of bond proceeds along with Federal and State grant funding. The Controller's Department has stated that bond proceeds are to be used first when funding a capital project, however, during our testing of capital projects, we determined that the Grants Department also files for reimbursement on projects which were originally approved and for which expenditures have been incurred without notifying the Controller's Department. A tremendous amount of time was spent in the analysis of capital projects which were funded in part with bond proceeds and Federal and State grants.

***Recommendation***

- We recommend that the Controller's Department establish a clear written policy as to how each capital projects funds are to be spent and in what order. The Grant's Department needs to notify the Controller's Department when such claims for reimbursement of Federal and/or State aid are filed so that the Department can properly account for them through the general ledger. This will enable the City to properly track capital projects, account for all revenue sources and related receivables/deferred revenue and enable the City to account for all spent and unspent bond proceeds.

**Exhibit C - Control Deficiencies**

- **Application of Bond Proceeds and Federal/State Grants** *(Continued)*

***Management Response (12.4 - Responsibility of Grants Department):***

*Management agrees with the issues noted and the recommendations made. The Grants Department will provide a monthly report as noted above (ID #12.3) and meet with OPM each quarter to update the funding sources for capital projects based on changes in the monthly report. The Controller's Department will update the general ledger as needed to adjust receivables or other general ledger accounts.*

*Expected remediation – Q3 F2013*

**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

- **Enhancing Internal Control**

***Control Environment***

The control environment sets the tone of an entity and influences the control consciousness of its people. The control environment is the foundation for all other components of internal control and provides structure and discipline. Among the important elements of the control environment are the attitude, awareness, and actions of management, as well as those charged with governance, concerning internal control. As a large organization with multiple locations and diversified activities, we believe there are important steps that can be taken to enhance the control environment within the City, particularly during these challenging economic times.

***Enhancing the Reporting Mechanism for Fraud and Abuse\****

Internal reporting channels, such as department heads open-door policies and through standardized complaint forms, have been found to be effective. Hotline or whistleblower provisions have been found to perform better for anonymous tips. In the prior year, we were advised that a formal mechanism (“employee hotline”) was in the process of being implemented and we believe that it is essential to this process that any communications from employees are completely confidential – to protect them from potential reprisals – and that their comments are discretely handled and communicated to the boards or the audit committee, perhaps through an independent third party. We have not seen such mechanism implemented as of yet.

***Recommendation***

- We recommend that the City continue to enhance its reporting mechanism for fraud, abuse and misconduct. We strongly suggest that an updated and comprehensive evaluation of the current reporting mechanism for fraud, abuse and misconduct would be of great benefit to the City.

***Management Response (13.1 - Responsibility of Director of Administration):***

*Management agrees with this recommendation. Whistleblower hotline will be established and communicated to City employees and residents in the near future.*

*Expected Remediation – February 2013 (Q3 F2013)*

**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

• **Enhancing Internal Control** (*Continued*)

*Enhancing the Internal Audit Function\**

Presently, the City's Internal Audit function is performed by one employee within the Controller's Department. We believe that an expanded and enhanced Internal Audit function would provide substantial benefits to the City in improving operational efficiency, preventing and detecting fraud and enhancing internal control.

**Recommendation**

- We recommend that the City re-establish an Internal Audit function. A written, risk-based audit plan covering all aspects of the City's operations should be developed and carried out on a cyclical basis.

**Management Response (13.2 - Responsibility of Director of Administration):**

*Management agrees with this recommendation. An Internal Auditor was hired in July of 2012. Risk-based annual audit planning process will commence in Q3 F2013 (in collaboration with the Board of Finance, Legal / HR, and Controller's Office). Hiring additional audit resources, with the approval of the Boards, may follow based on the risk assessment.*

*Expected remediation – Q4 F2013 for Risk-Based Audit Plan*

*Training on Code of Conduct\**

The City has a Code of Conduct that is required to be followed by employees. However, to be effective, a Code of Conduct must be well communicated to, and understood by, those expected to adhere to it. Thus, we recommend that the City conduct training for new employees during which they can ask questions about provisions of the code. Periodically thereafter, there should be refresher training for existing employees. The training should be specific and relevant to the employees' levels and duties so that they will understand how the code applies to them. For example, the frequency and details of training might differ for supervisory versus nonsupervisory personnel, or for accounting versus non-accounting personnel.

**Recommendation**

- New employees should be required to sign an acknowledgment of their responsibility to adhere to the Code of Conduct at the time of their employment. Existing employees (particularly those in sensitive positions such as senior management, department heads, and those handling accounting functions of any type of cash)

**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

- **Enhancing Internal Control** (*Continued*)

*Training on Code of Conduct\** (Continued)

should periodically (preferably annually) reconfirm their understanding of, and responsibility to adhere to, the code; that they have complied with it; and that they are not aware of any unreported violations.

***Management Response (13.3 - Responsibility of Director of Administration):***

*Ethics training will be offered to City employees in sensitive positions such as senior management, department heads, and those handling accounting functions in the near future. Directors and managers will be trained first. The program will be rolled out to rank and file employees over time. Fire and Police will receive customized training - but no time frame has been established as of yet for their training.*

*Expected remediation – Q4 F2013 for Ethics Training for City Directors and Managers*

- **General Accounting Transactions**

***Capital Lease – Recycling Trucks***

In 2007, the City entered into a lease agreement for recycling trucks. The lease qualified for accounting purposes to be recorded as a capital lease. The principal and interest obligations for this lease should be accounted for in the Debt Service Fund and be funded by a budgeted transfer out of the General Fund, instead of being charged to a contracted services appropriation account in the General Fund.

***Recommendation***

- We recommend that the City record this obligation in a manner similar to other bonded indebtedness. That is, the amount of principal and interest on this obligation should be budgeted and recorded as a transfer out of the General Fund and the principal and interest payments reflected in the Debt Service Fund.

***Management Response (14.1 - Responsibility of Controller's Department):***

*Management agrees with recommendation and will make the necessary adjustments before the end of F2013.*

*Expected remediation – Q4 F2013*

**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

- **General Accounting Transactions** (*Continued*)

***Board of Education (“BOE”) Medical Funds – Defined Employees***

We noted that the BOE reimburses the City Medical Fund for certain defined employees who are covered by the City Medical Fund. Instead of the BOE sending the funds directly to the City Medical Fund, the funds are first transferred to the BOE Medical Fund and then from there to the City Medical Fund. This extra step artificially inflates the BOE Medical fund’s revenues and expenses.

***Recommendation***

- We recommend that the defined employee’s medical costs be directly charged to the City’s Medical Fund.

***Management Response (14.2 - Responsibility of Board of Education):***

*Management agrees with recommendation and will make the recommended changes to simplify the accounting (using separate journal entries) to add transparency before the end of F2013.*

*Expected remediation – Q4 F2013*

- **Cash Management**

***Interest Allocation***

The City’s accounting software system automatically allocates interest income based on the ending cash balances in each fund. During 2012, it was noted that the Mill River Capital Projects Fund, with a cash balance of approximately \$3 million, the Non-Recurring Capital Projects Fund, with a cash balance of \$2.8 million, the Rainy Day Fund, with a cash balance of approximately \$13.9 million and the Town Aid Highway Fund with a cash balance of approximately \$260,000, had very little or no interest allocated for the entire year.

***Recommendation***

- Although the overall interest income may not be significant due to the current low interest rate environment, we recommend that the City allocate interest earning based on a consistent methodology.



**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

- **Cash Management** (*Continued*)

**Interest Allocation** (*Continued*)

**Management Response (14.3 - Responsibility of Controller's Department):**

*Management agrees with recommendation and will make the recommended changes before the end of F2013.*

*Expected remediation – Q4 F2013*

**Resolve Outstanding Checks**

It has been the City's policy to transfer checks outstanding over one year to a liability account for unclaimed checks entitled - stale dated checks. These balances have aggregated \$286,282 and \$131,013 respectfully for the years ended June 30, 2012 and 2011. We also noted outstanding payroll checks totaling approximately \$155,000 that have been outstanding in excess of one year.

There is currently no formal policy in place to cancel these amounts and return the amounts to the fund which was originally charged or to send stop payment notices when necessary.

**Recommendation**

- We recommend that the City develop and put in place a formal policy that creates a standard procedure to account for stale dated checks. Although reconciling items are moved to a liability account for control purposes and to facilitate preparation of monthly bank reconciliations, these items should be reviewed regarding whether they should be written off with proper approvals and appropriate stop orders placed with the financial institutions. Supervisory personnel should be notified when payroll checks are outstanding in excess of one year so that proper action can be taken. Additionally, the City must determine if the funds are owed to the State in the form of unclaimed funds.

**Management Response (15.1 - Responsibility of Controller's Department):**

*Management agrees with recommendation and will implement the recommended changes beginning in F2014.*

*Expected remediation – Q1 F2014*

**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

• **Cash Management** (*Continued*)

**Bank Accounts\***

When the City opens or closes a bank account, no formal Board action is taken to acknowledge this activity.

**Recommendation**

- We recommend that the Board of Finance authorize all accounts that are opened or closed during the year by passage of a formal resolution.

**Management Response (15.2 - Responsibility of Controller's Department):**

*Management agrees with recommendation and will implement the recommended changes before the end of F2013.*

*Expected remediation – Q4 F2013*

**Separate Bank Accounts**

*Capital Non-Recurring Fund*

Connecticut General Statutes 7-361 require that all money accumulated in the Capital Non-recurring Fund, together with all interest, is to be deposited in a separate bank account. With the exception of a segregated cash account of approximately \$72,000 of the \$2.8 million in the fund, the City has co-mingled these funds as part of their pooled cash.

**Recommendation**

- We suggest that the City segregate the total accumulated monies in this fund in accordance with Connecticut General Statutes.

**Management Response (15.3a - Responsibility of Controller's Department):**

*Management agrees with recommendation and will make the recommended changes before the end of Q3 F2013.*

*Expected remediation – Q3 F2013*

**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

• **Cash Management** (*Continued*)

**Separate Bank Accounts** (*Continued*)

*Rainy Day Fund*

The Rainy Day Fund is used to accumulate fund balance. Per City Charter, the Mayor can direct that a surplus from the prior fiscal year be transferred into this fund and in subsequent years, direct that it be expended for any lawful purpose. These accumulated funds are to be used only in an emergency or extraordinary situation.

**Recommendation**

- All transfers and expenditures from the Rainy Day Fund require the approval of the Board of Finance and the Board of Representatives and it would be the City's policy to establish a separate bank account to account for the accumulated fund balance in the Rainy Day Fund. As such, the Board of Finance has given consideration to segregating these funds into their own bank account rather than being part of the pooled cash.

**Management Response (15.3b - Responsibility of Controller's Department):**

*Management agrees with recommendation and will make the recommended changes before the end of Q3 F2013.*

*Expected remediation – Q3 F2013*

**Check Signing Authorization**

As part of our audit procedures, our standard bank confirmation testing revealed that persons known to have left employment of the City remain on the bank records as authorized signors. Only current employees should be responsible for such an important control over cash disbursements.

**Recommendation**

- In an effort to maintain strong internal controls, we suggest that the City periodically check the authorized check-signer listing on the bank records and, if necessary, update the list.

**Management Response (15.4 - Responsibility of Controller's Department):**

*Management agrees with recommendation and will make the recommended changes beginning in F2014.*

*Expected remediation – Q1 F2014*

**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

- **Continuing Emphasis on Governance**

***Document Retention***

The time period for which a City's routine accounting and financial documents should be retained needs to be established so that important documentation could be kept at hand, in the context of the cost-benefit considerations of storing such information over time. In today's environment, regulators and other interested parties may be concerned, for a variety of reasons, about the availability of the City's historical accounting and financial information.

***Recommendation***

- We recommend that the City formally assigns to a specific representative the sole authority to delete, destroy, or discard the City's documents, based on the established policy's guidelines for the type of documentation to be maintained and the time frame for maintaining it.

***Management Response (16.1 - Responsibility of Legal Affairs):***

*Management agrees with recommendation and will make the recommended changes beginning in F2014.*

*Expected remediation – Q1 F2014*

- **Transaction Cycles**

***Payroll Cycle Review Findings***

As part of our audit of the City's financial statements, we review, evaluate and perform walkthroughs with respect to the real property tax, payroll, purchasing and cash receipts cycles. Our walk-throughs for the current year indicated the following:

Through our inquiry and interview process, we noted that overtime throughout the City had reached excessive levels. The City's overtime policy explicitly states that overtime must be properly documented. During the course of our audit, we noted that a procedure was in place for the approval of overtime with the appropriate supervisory sign-off, but we were not able to substantiate the work performed during the overtime period, since there was no description of the work performed on file. This was the case in the departments tested which included Operations (Department of Public Works), Department of Recreation and the Police Department. We also noted that many individuals/department heads had the authority to approve overtime. We further noted that several BOE employee files were not updated with the current salary information.

**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

• **Transaction Cycles** (*Continued*)

**Payroll Cycle Review Findings** (Continued)

**Recommendation**

- We recommend that the City and Board of Education designate appropriate parties to certify payroll. The certification of payroll will provide a level of internal control and accountability. The certification should include the necessary signatures and information/documentation including certain testwork (on a sample basis) to support the payroll. Any overtime worked should include a description of the work performed and why it was needed, along with the proper approval. The City should also consider limiting the number of individuals having the authority to approve overtime.

**Recommendation**

- To improve internal control over the payroll process, we recommend that the City:
  - Train timekeepers/department heads on better methods of ensuring that proper documentation is on file for all timesheets, overtime, and annual leave and sick leave forms.
  - Establish a methodology for employee file maintenance and related physical safeguards and assign responsibility for these matters to the appropriate employee.
  - Develop a standard checklist to ensure that all personnel files contain appropriate supporting documentation. Consider a periodic unannounced review of existing files to determine the completeness and accuracy of file data.
  - Reinforce established procedures for employee terminations to ensure that they are processed timely.

**Management Response (17.1 & 17.2 - Responsibility of Controller's Department (Lead) OPM, Payroll, and Board of Education):**

*While Management agrees that processes and controls around overtime need to be improved, we do not necessarily agree that the implementation of the recommendations made will address the issues and get at the root cause of this problem. Management believes that a broader understanding of current processes is required before the appropriate remediative activities can be identified.*

*Expected remediation – Q2 F2014*

**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

- **Transaction Cycles** (*Continued*)

***Concentration of Payroll Responsibilities***

Our audit testing of payroll procedures disclosed that one employee in the accounting department for the City and one employee for the Board of Education is essentially performing the complete payroll process. This is contrary to the establishment of strong internal controls regarding segregation of responsibilities.

***Recommendation***

- While we clearly understand the limitations in obtaining an adequate segregation of duties with a small staff, we recommend that the Director or Controller or Internal Audit Manager, or an employee chosen by the Director, should periodically review the payroll for both the City and the Board of Education on a surprise basis. This review should include which employees are listed on payroll, amounts at which they are paid, reasonableness of withholdings, and the assurance that all related payroll taxes are being paid.

***Management Response (17.3 - Responsibility of Controller's Department):***

*Management has already initiated a review of current payroll procedures by Internal Audit, including extensive testing of transaction data for anomalies, using data mining software. The testing must be revised as it is rolled out across different departments and functional areas because of the procedures involved in capturing time work, getting it approved, and processing it through the payroll department. The progress of that review is reported regularly to the Audit Committee of the Board of Finance. Surprise audits, though proven a good deterrent to fraud, can still miss anomalies that would be detected by the more thorough current review of all transaction data during a given time period that is currently underway.*

*Expected remediation – Q4 F2013*

- **Board of Education (BOE) Items**

***Personnel Records / Software – Board of Education\****

The recording and maintaining of sick time for Board of Education (“BOE”) employees is tracked manually in an Excel spreadsheet. While we concur that this information must be kept current, such a manual process is very time consuming and inefficient. The City uses an automated system (i.e. Kronos) to record the actual time taken during the year for each employee, but there is no tracking mechanism for prior year’s balances.

**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

• **Board of Education (BOE) Items** *(Continued)*

***Personnel Records / Software – Board of Education\**** (Continued)

***Recommendation***

- We recommend that the City investigate the reasons for the use of non-integrated programs for recording employee's accrued time and address the difficulties in the integration of these systems into one summarized report. This is an area that needs to be kept up to date to avoid the possibility of improperly calculated sick time payouts. We further recommend that the City/BOE implement an automated system that can roll forward prior year's unused sick time, as well as track current year sick time earned and taken for each employee.

***Management Response (18.1 - Responsibility of Board of Education):***

*BOE is aware of the limitations of the existing system and will be formulating plans to update it. In the interim, manual efforts will be used to keep the data current and accurate. The long term plan is to implement the proper software (in one to two years); meanwhile, a quarterly review of such information will be instituted by the Board of Education Finance Director and the results of each review will be reported to the Controller's Department.*

*Expected remediation – On-going*

***Student Activity Clubs - Club accounts with negative balances\****

During our audit of the various schools' student activity funds, we noted that several clubs had a negative balance at the end of the fiscal year. This comment is repeated from our prior year's letter.

***Recommendation***

- We suggest that the cash receipts and disbursements of each club be closely monitored. Policies and procedures should be in place to prevent a club's account from going into a negative position. Existing negative balances should be investigated and a determination made as to the cause, a plan as to how to rectify the shortage and how to prevent such an occurrence in the future.

***Management Response (18.2 - Responsibility of Board of Education):***

*A new policy (3447R) for this was approved on July 7, 2011 and was effective immediately. Management reviews are held on a quarterly basis to ensure compliance.*

*Remediated – July 2011*

**Exhibit D - Other Observations/Recommendations for Improving Internal Control and/or Operating Efficiency**

• **Board of Education (BOE) Items** *(Continued)*

***Student Activity Clubs - Inactive clubs\****

We noted that several clubs had no financial activity during the current fiscal year. These funds should revert to the account of the general student organization or the student council and be expended in accordance with that organization's constitution.

***Recommendation***

- We suggest that a determination of the status of the clubs with no financial activity be made to determine the proper disposition of funds.

***Management Response (18.3 - Responsibility of Board of Education):***

*On July 7, 2011, policy 3447R was amended to address this issue and class accounts will revert to the school General Fund after the five year class reunion. This will be effective immediately.*

*Remediated – July 2011*

***Student Activity Funds - Preparation and timeliness of reports***

During our audit, the student activity funds reports were not provided to us in a timely fashion, resulting in delays in the audit process. Additionally, certain student activity reports opening balances did not match the closing balances presented in the prior year audited financial statements. We were advised that with the use of quickbooks, certain checks that are voided revert back to the year they were issued resulting in such differences.

***Recommendation***

- All schools should provide the finance personnel at the Board of Education with monthly student activity reports. This will ensure that all student activity funds are monitored and reviewed in accordance with the City's Accounting Policies and Procedures Manual and that any discrepancies are resolved in a timely manner.

***Management Response (18.4 - Responsibility of Board of Education):***

*BOE has implemented the recommendation and now runs month activity reports using Quickbooks.*

*Remediated – July 2011*



Mayor  
MICHAEL A. PAVIA



DIRECTOR OF ADMINISTRATION  
MICHAEL E. HANDLER

Phone: (203) 977-4182  
FAX: (203) 977-5657  
Email: mhandler@ci.stamford.ct.us

**CITY OF STAMFORD**  
**OFFICE OF ADMINISTRATION**  
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P.O. BOX 10182  
STAMFORD, CONNECTICUT 06904-2152

**City of Stamford**  
**CORRECTIVE ACTION PLAN**  
**February 25, 2013**

Office of Policy and Management  
450 Capitol Avenue MS-54MFS  
Hartford, CT 06106-1379

Municipal Financial Services Unit  
Attn: William Plummer

The City of Stamford respectfully submits the following Corrective Action plan for the year ended June 30, 2012.

**Independent Public Accounting Firm**

O'Connor Davies  
One Stamford Landing  
Stamford CT 06902

**Audit Period: June 30, 2012**

The findings from the December 17, 2012 schedule of findings are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

**Section II – Financial Statement Findings**

**SIGNIFICANT DEFICIENCIES**

**Finding 2012 – 01: Year End Closing, Process and Communication**

**Summary of Findings and Cause**

The year-end closing process was not complete. Account reconciliations, analyses and schedules were incomplete and/or not reviewed by supervisory personnel. There is insufficient documentation and communication of accounting and financial reporting processes and procedures related to the year-end audit, including the lack of supervisory review and lack of clearly defined roles and responsibilities of departments and individuals for maintaining, monitoring and sharing information. There is a lack of a well-defined and effective monthly, quarterly and annual closing process. Financial statements were not prepared and submitted to the Board of Finance by September 30<sup>th</sup> as required by the City Charter. Some departments within the City operate independently and may not have a sufficient understanding of and/or accountability for the closing process and related accounting and reporting practices.

### O'Connor Davies Recommendation

These issues should be evaluated and appropriate corrective actions implemented as soon as possible.

### Actions Taken or Planned

*Management agrees with the comments and expressed concerns of the auditors.*

#### *Management Response 1.1*

*Remediative actions were begun during F2012 with the scheduling of Controller's Council meetings (meeting with all department representatives who are part of the financial reporting process, including data originators) and the creation of a Year-End Closing Schedule by the Controller's Department. The Assistant Controller will create a monthly/quarterly version to use in conjunction with the balance of F2013. During that time, the Controller's Department staff's responsibilities will be revised to better align them with City's needs. Initial objective is to complete monthly closes within 45 to 60 days of each month-end. Expected Remediation - Q3/Q4 F2013.*

#### *Management Response 1.2*

*The City Charter was amended in November 2012 to provide an additional 30 days for the year end close process. The time period was extended to October 31st for subsequent years.*

#### *Management Response 1.3*

*The Controller's Department has already created a Year-End Closing Schedule (as noted in issue 1.1 above) which was used to manage work flow and coordinate handoffs of audit related information for the F2012 close. As the closing progressed, some deadlines were missed and cumulative downstream impact during the F2012 year-end close process indicated that processes and communication need further improvement and refinement in advance of the F2013 year-end close. Expected Remediation - Q4 F2013.*

#### *Management Response 1.4a*

*The Controller and Assistant Controller will develop a monthly closing schedule. The Controller will review at the end of each month and perform quarterly financial reviews to identify areas and issues that may impact the year-end close. Expected Remediation - Q3 F2013.*

#### *Management Response 1.4b*

*Regarding the issues raised with respect to: property taxes receivable, overpayments, disputed assessments, and related revenue accounts not being reconciled to GL; disputed assessments schedule not being sent to Controller's Department for review; and, transfers for Mill River and Harbor Point not being recorded by the City, the Assistant Controller will work with the Tax Department to better understand the key informational exchanges that need to be improved. The Controller's Department notes that year-over-year Tax Department had dramatically improved the timing of the production of key reports and audit-related informational requests. Issues related to the recording and timing of adjusting journal entries will be the focus of the Assistant Controller's review. Expected Remediation - Q4 F2013.*

## **Finding 2011 – 02: Old Town Hall Redevelopment Authority (OTHRA)**

### **Summary of Findings and Cause**

The City does not have an adequate process in place to properly account for the complex nature of OTHRA's entities and their reporting requirements. Several accounting and operating issues were noted relating to OTHRA. These included entries related to OTHRA activity not being properly recorded in the City's accounting records, no evidence that cash advances or appropriations made to OTHRA were approved in accordance with City requirements, pending claims with the contractor delaying tax credits, the Master Tenant not being billed for rent, annual audits of the OTH Manager and QALICB, not being performed, and a bank account not owned by the OTHRA reflected in the fund's accounts.

### **O'Connor Davies Recommendation**

City officials should seek the advice of qualified legal counsel regarding the operational and other issues related to OTHRA in order to fully understand the legal and other requirements for operating OTHRA, including any corrective actions that may now be required and the implications of noncompliance, if any, with any of those requirements. A definitive decision should be made by management regarding the continued funding of OTHRA's capital and operating deficiencies by the City. Such funding should require a loan agreement between the City and OTHRA. The accounting and administrative responsibilities associated with OTHRA, OTH Manager, QALICB and other related entities should be more clearly identified and assigned. If the City is to be responsible for performing certain of these tasks, those tasks should be documented in a written agreement between the City and OTH Manager. Management should be sure that prospective tenants meet the eligibility requirements under the tax credit programs (e.g. we understand there is a limitation on the percentage of space that can be leased to not-for-profit entities).

### **Actions Taken or Planned**

*Management agrees with the comments and expressed concerns of the auditors.*

#### ***Management Response 2.1***

*The OTHRA Board has retained legal counsel to represent its interests in the litigation matters regarding the contractor suit as well as matters regarding leases and other operational issues. Remediated – Nov 2012*

#### ***Management Response 2.2***

*The OTHRA Board prepared a future cash flow report indicating that by calendar year 2015 the operation will be breakeven and moving forward into profitability where there will be no need for financial support from the City. Expected Remediation - Q4 F2013*

#### ***Management Response 2.3***

*Management agrees with the issue noted and the recommendation made. The Senior Accountant in the Controller's Department will work with OTHRA Liaison (and Board) to keep financial records up-to-date and in sync with Assistant Controller's monthly closing schedule. Expected Remediation – Q3 F2013*

#### ***Management Response 2.4***

*The entire space is now rented. The majority of the space is occupied by the Stamford Innovation Center, a for-profit organization, under a ten year lease, which will assure the requirement that the space be majority occupied by for-profit companies to qualify for the tax credit program. Remediated – December 2012*

## **Finding 2012 – 03: Internal Service Fund – Risk Management**

### Summary of Findings and Cause

The amount of liability recorded for the City's reported but unpaid workers' compensation claims was provided by the City's third party administrator. The City has not had an actuary calculate incurred but not reported (IBNR) claims for workers' compensation. The heart and hypertension claim liabilities are recorded at the entity-wide level and not the Risk Management Fund. This amount recorded for the City's reported but unpaid heart and hypertension claims was also provided by the City's third party administrator. The City has not had an actuary calculate incurred but not reported (IBNR) claims for heart and hypertension claims.

### O'Connor Davies Recommendation

The City should engage the services of an actuary to calculate the incurred but not reported workers' compensation and heart and hypertension claims to assist in providing an evaluation of potential liability for the utilization by the City to fund the City's incurred but not reported claims liability.

### *Management Response 3.1*

*Management agrees with the issue noted and the recommendation made. The City's current Risk Management/Third Party Agreement ("TPA") contract expires July 1, 2013. New Request for Proposal ("RFP") for Workers' Compensation TPA has amended the scope of services which includes engaging an external actuary to review all reserves on at least an annual basis. Until July 1, 2013, quarterly audits will be completed and expenditures and reserves are being followed closely. Expected Remediation – Q4 F2013*

If there are any questions regarding this plan please contact me at (203) 977- 4182.

Sincerely Yours,



Michael E. Handler  
Director of Administration



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**City of Stamford**  
**CORRECTIVE ACTION PLAN**  
**February 25, 2013**

U.S. Department of Agriculture  
U.S. Department of Commerce  
U.S. Department of Housing and Urban Development  
U.S. Department of Justice  
U.S. Department of Transportation  
U.S. Environmental Protection Agency  
U.S. Department of Energy  
U.S. Department of Education  
U.S. Department of Health and Human Services  
U.S. Department of Homeland Security

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