

City of Stamford, Connecticut
Communication of Internal Control Related
Matters Identified in the Audit to those
Charged with Governance and Management
June 30, 2013

**Communication of Internal Control Matters Identified in the Audit to
Those Charged with Governance and Management**

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

Auditors' Communication on Internal Control

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, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies in the City's internal control, identified in Addendum A, to be significant deficiencies.

This communication is intended solely for the information and use of the Board of Finance and management and are 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
January 24, 2014**

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City of Stamford, Connecticut

Significant Deficiencies in Internal Control

1. Audit Readiness / 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. Accounting tasks such as monthly reconciliations, cross-checks, reviews and supporting schedules play a key role in proving the accuracy of financial data and financial information that comprise interim and year-end financial statements.

As a large, complex organization, information required for financial reporting and maintaining proper internal control exists in various departments or agencies—the Tax Department, the Grants Department, Payroll, Office of Legal Affairs, Board of Education (“BOE”), Smith House, SWPCA, etc.—within the City. There are no defined processes or procedures in place for communicating this information to the Controller’s Department.

During our audit, we recorded over 200 adjusting journal entries, some of which were proposed by management after the audit began, but the large majority of which were proposed by us. The adjusting journal entries resulted from account reconciliations completed after the start of the audit as well as information that was not available to the Controller’s Department through the ordinary course of business. The most significant adjustments related to grants, capital projects, property taxes, medical funds, and the OPEB trust fund.

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 were significantly delayed again this year.

Recommendation

These conditions can have a negative impact on internal efficiency and jeopardize effective financial reporting and internal control. We recommend that appropriate corrective actions be implemented as soon as possible. Specifically, we recommend:

- We continue to suggest that the Controller’s Department develop and implement a well-defined and effective monthly, quarterly and annual closing process that includes interim account analysis and an appropriate level of supervisory review. Strict adherence to this process will allow for the year-end work and audit preparation to be a much less time-consuming and arduous process.
- Assure that there are proper resources available to complete the monthly, quarterly and year-end closings, including the resources needed to cover unforeseen staffing shortages that may arise during the course of the year.
- If the City continues the use of spreadsheets and account analyses outside of the standard accounting system, the information should be summarized and recorded in the City’s general ledger accounting system on a contemporaneous basis. This would save a substantial amount of work and overall would result in more timely and accurate information for interim and year-end reporting.

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Significant Deficiencies in Internal Control

2. Timekeeping Oversight and Administration

Payroll and related taxes and benefits comprise the single largest recurring expenditure for the City (including the Board of Education). Our audit procedures continue to expose issues relating to the processing of payroll, including overtime approval and tracking of compensated absences. While the City has an automated system (i.e. Kronos) for tracking hours worked and paid time off, the procedures in place across the City vary widely and often circumvent the Kronos system. Among the issues we noted are:

- Instances where overtime pay is approved, but the reason for the overtime was not documented in accordance with City policy.
- Errors in computing the accumulated sick and/or vacation time, particularly in the Fire Department, where the amounts were significantly overstated in comparison to what the labor contracts allow.
- A large number of personnel across the City are allowed to approve overtime, and there is no procedure in place for a higher level review of overtime incurred.

Recommendation

We recommend that the City standardize payroll procedures across all City/BOE departments, including the use of Kronos. Written policies should be established to appropriately limit the number of people that can approve overtime and to provide for regular oversight to ensure that overtime incurred is reasonable and appropriate and that the reasons for overtime are being clearly documented in accordance with existing policy. We also 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 for rolling forward prior year's unused sick and vacation time, as well as tracking current year sick and vacation time earned and taken for each employee.

3. 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. OTH Manager is responsible for the overall management of the property. In addition to tax credits, the project was financed by direct and indirect loans from the City.

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

- The annual audits of OTH Manager and QALICB, as required by the underlying legal documents, were not performed.

City of Stamford, Connecticut

Significant Deficiencies in Internal Control

3. Old Town Hall Redevelopment Agency (“OTHRA”) *(Continued)*

- Rental income from OTH Master Tenant, LLC, which is owned 100% by US Bank, is not being transferred into QALICB's bank account in accordance with the master lease agreement. Additionally, QALICB is not remitting a management fee to the City, also as required.
- Real estate taxes of approximately \$100,000 which are due to the City were not recorded.

Recommendation

We recommend the following:

- 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.
- The required audits be completed in order to comply with the underlying agreements and to allow for the collection of Federal tax credits – the New Markets and Historic tax credits.