

**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, 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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and improving operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. The attached comments and observations are in addition to our separate report on significant deficiencies and material weaknesses, dated January 24, 2014.

*O'Connor Davies, LLP*

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Stamford, Connecticut  
January 24, 2014**

## City of Stamford, Connecticut

### Control Deficiencies, Comments and Observations

#### 1. Grants, Amounts Due from Federal/State Government and Related Unearned Revenues

We noted that certain school construction reimbursement requests are not filed in a timely manner. Many of the underlying projects that have been ongoing for several years, continue to reflect receivable balances, some dating back greater than ten years. While these amounts have been deferred on the City's books and records, there appears to be a delay in the City's filing for reimbursement even though the State has informed them that the funds are available.

We also noted that the general ledger is not being updated on a timely basis for capital project, educational and other City grants receivables that have been requested and that are being tracked on spreadsheets outside of the accounting system.

Additionally, loan balances relating to the various loan programs administered by the Community Development Program were not reflected in the general ledger.

#### Recommendation

The City should put procedures in place to assure that claims for school construction grants reimbursements are filed timely and determine the reasons for any delays in reimbursement. As noted previously, we also recommend that procedures be established to assure that the general ledger is updated timely for grant and loan activity that occurs.

#### 2. OPEB Trust Fund and Medical Funds Accounting

Retiree medical expenses are paid out of the "short-term" portion of the OPEB trust fund. Under the current process, the City and BOE are supposed to contribute to the short-term OPEB trust fund an amount equal to the current year retiree medical expenses, resulting in a net \$0 overage or shortfall. During FY 2012-13 and some prior years, the BOE did not make the required contributions to the short-term OPEB trust fund; resulting in a shortfall in that fund (due from the BOE) which was covered through excess City contributions. Furthermore, this shortfall was not captured through the ordinary accounting process and an audit proposed journal entry was required to properly reflect the amount due the short-term OPEB trust fund from the BOE. Also, we did not note any process in place to verify that the required BOE funds are available in the short-term OPEB trust fund to cover the retiree medical expenses before they are paid.

Currently, the calculation of the actuarial accrued liability ("AAL") has five components, City Classified Employees' Retirement Fund ("CERF"), BOE CERF, SWPCA CERF and Police and Fire. However, the assets applied against these liabilities in determining the Unfunded AAL do not align with the actual contributions made by these component groups over the past several years. Accordingly, while the Unfunded AAL is properly stated in total, the Unfunded AAL by component is misstated which may improperly impact the allocation of future contributions.

#### Recommendation

We recommend that the BOE contribute funds to the short-term OPEB trust fund in accordance with the established procedures followed by the City. We further recommend that procedures be established to assure that the appropriate funds are available within the short-term OPEB trust fund for both the City and the BOE prior to disbursing any funds.

## **City of Stamford, Connecticut**

### **Control Deficiencies, Comments and Observations**

#### **2. OPEB Trust Fund and Medical Funds Accounting (*continued*)**

In addition, we recommend that the assets in the OPEB trust fund be allocated to each component group based on their respective contributions and investment returns since inception.

#### **3. Encumbrances – City and Board of Education**

Encumbrances represent commitments for purchases that have not yet taken place and are, therefore, reflected in the financial statements as an assignment of fund balance. Encumbrances are generally recorded on the books when the purchase orders are generated, and are reduced as purchase orders are liquidated. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which the purchase order, contract or other commitment is issued and, accordingly, encumbrances outstanding at year-end are reflected in budgetary reports as expenditures of the current year.

We noted that the BOE had outstanding encumbrances to fund certain Pension and OPEB Trust Fund obligations. These encumbrances should not have been reported as such and audit adjustments of approximately \$4.4 million were required to liquidate these encumbrances. We noted that several purchase orders contained amounts encumbered for which no commitment remained and/or whose purposes were concluded and, accordingly, the amounts should have been liquidated and that certain City and BOE amounts reported as encumbrances had been carried over from the previous year indicating that they are not binding commitments. In addition, at the end of the fiscal year, encumbrances of the prior year are cancelled which would also indicate that such commitments were not valid.

##### **Recommendation**

We understand that there are time constraints in the year-end closing of the books and records; however, we recommend that the City and BOE (with the assistance of the Controller's Office) develop a policy for encumbrances. We also suggest that by the end of the fiscal year, procedures be implemented whereby all open purchase orders are carefully scrutinized and those where all goods and services have been received should be liquidated.

#### **4. Capital Asset Recordkeeping and Maintenance of Sub-ledgers**

Capital assets (net of accumulated depreciation) amount to approximately \$714 million at June 30, 2013. The current year additions and deletions are a vital component of the GASB Statement No. 34 conversion of the City's fund level financial statements to full accrual government-wide financial 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 which properly segregates 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 determining current year depreciation expense. Certain differences related to prior year adjustments and reclassifications that were not posted to the sub-ledgers. Also, the accumulated depreciation reported on the sub-ledgers did not agree to the carry-forward analysis plus the current year depreciation. This was due, in part, to disposals of capital assets which were not removed from the sub-ledgers. Additionally, with the

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### Control Deficiencies, Comments and Observations

#### 4. Capital Asset Recordkeeping and Maintenance of Sub-ledgers *(Continued)*

extensive economic development occurring in the City, the City has not addressed the infrastructure changes that occur as development is expanded and roads are opened, closed and/or expanded. The City's policies and procedures manual does not adequately address the control process over recording capital additions, deletions and transfers consistently and preparing 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 records 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 can then be made regarding the reliability of certain capital assets and the need for replacements.

#### 5. Budgetary Modifications

The budget is intended to be the annual financial plan for the City. Internal controls prevent individual budgetary accounts from being over-expended throughout the year. Budgetary control within the General Fund is exercised at the operating department level. Transfers may be made in proper cases from one line to another, with the approval of the Director of Administration and the Board of Finance. The Administration should evaluate year to date financial activity and determine the need to increase an appropriation "before" the end of the fiscal year. If a modification is necessary, a budget transfer or amendment should be recommended to the Board. We noted that several departmental expenditure lines in the General Fund exceeded their budgetary provisions.

##### **Recommendation**

We recommend that the City Administration and the Board consider exercising their authority to prevent such occurrences by means of budget transfers or supplemental appropriation resolutions prior to the close of the fiscal year.

#### 6. Pooled Cash Maintenance/Separate Bank Accounts

To improve transparency with respect to the pooled cash arrangement, the Board of Finance had authorized certain bank accounts be set up to account for specific activities. While these accounts were set up, such accounts are not maintained on a current basis throughout the year. The City has established separate bank accounts in the Capital Projects Fund to segregate bond proceeds on a per issue basis, in addition to separate accounts for the Rainy Day Fund to segregate funds to accumulate reserves and the Capital Non-recurring Fund as required by State statute. Such segregation was adopted to maintain better control over spending and to segregate funds to help

## City of Stamford, Connecticut

### Control Deficiencies, Comments and Observations

#### 6. Pooled Cash Maintenance/Separate Bank Accounts *(Continued)*

assure they are for specific purposes and only with Board of Finance and Board of Representatives approvals. The required transfers of cash balances are not made as expenditures are incurred or when transfers are approved by the Board of Finance. If transfers are not made when approved or when expenditures are incurred, internal control over cash disbursements is weakened which may result in mispostings or errors and balances being misrepresented.

##### **Recommendation**

We recommend that as expenditures are incurred, the segregated cash accounts are adjusted accordingly at that point in time and that transfers are made on a timely basis.

#### 7. Cash Management – 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 \$325,263 and \$286,282, respectfully for the year's ended June 30, 2013 and 2012.

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

##### **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 appropriate stop orders should be 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.

#### 8. Smith House Financial Management Practices

Our audit disclosed that there is approximately \$1.7 million (net of allowance and 60 day collections) of past due receivables, which pertain to the Smith House nursing facility. 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.

##### **Recommendation**

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. 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.

## **City of Stamford, Connecticut**

### **Control Deficiencies, Comments and Observations**

#### **9. Debt Refunding**

During the current year, the City refunded certain outstanding general obligation bonds in order to obtain future savings. In order to properly record bond refundings, policies and procedures need to be in place in which the City identifies, calculates and records bond premiums and/or discounts, gains or losses and bond issuance costs in conjunction with the bond refunding. The refunded bonds also contained an allocation to the Water Pollution Control Authority ("WPCA"). The allocation between governmental funds and proprietary funds required substantial time as well as several adjusting journal entries which were proposed and recorded by management to reflect the transactions in the Debt Service Fund, WPCA Proprietary Fund as well as the government-wide financial statements. The City does not have an adequate process in place to record these transactions at the time of the bond refunding.

#### **Recommendation**

We recommend that the City develop and implement a policy to ensure the proper recording of the aforementioned transactions.

#### **10. 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**

It is important 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.

#### **11. Journal Entry Authorization**

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.

#### **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.

**City of Stamford, Connecticut**

**Control Deficiencies, Comments and Observations**

**12. Student Activity Funds - Board of Education 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.

**13. Enhancing Internal Control**

*Expand 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 enhance its 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.

*Annual Training on the City's 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) 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.

**City of Stamford, Connecticut**

**Control Deficiencies, Comments and Observations**

**14. 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. URC Management provided an explanation of the origin of the amounts, however, these amounts have remained unchanged for several years. There also appears to be an inconsistency between the amounts due from the City to the URC for use of land for parking. The revenue recognized on the URC's books and records did not match the expenditures recorded in the City's Parking Fund.

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 and unearned grants revenue. URC Management provided a list of property and acquisition costs, however, at least one parcel on the property listed was also listed on the City's Tax Assessor website as being owned by a private party and not the URC or the City. This property was the subject of an eminent domain case in which the owner prevailed in preventing the URC from taking the land. We could not determine from the remaining list of assets, which parcels they were, their street addresses, or how they could be located on the tax assessor website. The poor records for the property held by the URC made accounting and auditing the conversion of land owned by the URC to a condominium association and subsequent sale of three units from the condominium a challenge. Furthermore, the transaction when recorded on the URC's books and records overstated receivables, deposits payable, and gain on sale of the property. Journal entries were proposed and recorded by management to correct these transactions.

**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 and whether land held for resale is accurate. We also recommend that the URC determine what the unearned grants 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.

**15. Internal Service Fund – Risk Management**

*Claims Payable –Workers' Compensation*

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. Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to update estimates based on recent settlements, claims frequency and other economic and social factors.



## City of Stamford, Connecticut

### Control Deficiencies, Comments and Observations

#### 15. Internal Service Fund – Risk Management *(Continued)*

During our audit, we noted that:

- For the first time, the City had engaged an actuary to calculate the incurred but not reported (“IBNR”) workers compensation claims liabilities. Such IBNR claims liabilities were not previously reflected in the Risk Management Internal Service Fund established by the City, which resulted in a significant audit adjustment that calculated projected liabilities over the life of the respective claims.
- Insurance refunds and settlements for City claims were received and posted or netted against expenses or payable accounts rather than being posted to the appropriate revenue account for claims payments received.

#### **Recommendation**

We recommend the City record the appropriate IBNR claims liabilities as required by GASB Statement No. 10 and make long-term plans to appropriately fund the liabilities over time. We also recommend that receipts for insurance refunds or settlements for City claims be recorded as revenue and not netted with expenses. This will allow the City to properly track actual expenses on an annual basis and provide for more accurate comparative data.

#### 16. Claims Payable – Heart and Hypertension – Government-Wide

The City is self-insured for police officers and firefighters heart and hypertension claims as required by State statute. During the current year, the City had engaged an actuary to calculate the incurred but not reported (“IBNR”) heart and hypertension claims. Such IBNR claims liability is recorded at the government-wide level as required by GASB Statement No. 34. In prior years, the liability had been recorded based on known claims as reported by a third party administrator. The City had not recorded such IBNR claims liabilities and an adjustment was proposed and recorded by management to correctly report the total liability at June 30, 2013 in the government-wide financial statements.

#### **Recommendation**

We recommend that the City record its IBNR claims liability for heart and hypertension claims based on the known claims and the incurred but not reported claims information provided by the actuarial valuation.