

**Town of New Hartford
State Single Audit
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June 30, 2012**

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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

Independent Auditor's Report

To the Board of Finance of the
Town of New Hartford, CT

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of New Hartford, CT (Town) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 19, 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 Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town'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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

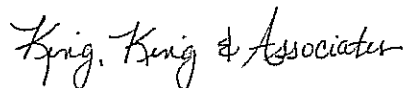
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination 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 described as #12-1 and #12-2 in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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*.

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Finance, others within the Town, and the State of Connecticut 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.



King, King & Associates, CPAs
Winsted, CT
December 19, 2012

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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 THE STATE SINGLE AUDIT ACT

Independent Auditor's Report

To the Board of Finance of the
Town of New Hartford, CT

Compliance

We have audited the Town of New Hartford, CT's (Town) 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 Town's major state programs for the year ended June 30, 2012. The major state programs are identified in the summary of auditor's 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 Town's management. Our responsibility is to express an opinion on the Town'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 Town'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 on the Town's compliance with those requirements.

In our opinion, the Town 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 Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered the Town's internal control over compliance with 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 Town's internal control over compliance.

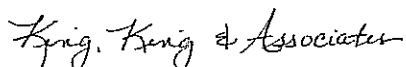
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 a 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, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2012, and have issued our report thereon dated December 19, 2012 which contained unqualified opinions on the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town'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 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 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 as a whole.

This report is intended solely for the information and the use of management of the Town, the Board of Finance, the Board of Selectmen, others within the entity, the State of Connecticut Office of Policy and Management, 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.



King, King & Associates, CPAs
December 19, 2012

TOWN OF NEW HARTFORD
Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2012

| State Grantor Pass-Through <u>Grantor Program Title</u> | State Grant Program <u>Core-CT Number</u> | <u>Expenditures</u> |
|--|--|---------------------|
| State Dept. of Education | | |
| Adult Education | 11000-SDE64000-17030 | \$ 2,424 |
| Child Nutrition State Matching Grant | 11000-SDE64000-16211 | 2,124 |
| Healthy Foods Initiative | 11000-SDE64000-16212 | 4,617 |
| Connecticut State Library | | |
| Historic Documents Preservation Grants | 12060-CSL66094-35150 | 3,500 |
| Department of Environmental Protection | | |
| Energy and Environmental Settlements | 12060-DEP43760-35169 | 8,143 |
| Small Town Economic Assistance Program | 12060-DEP43720-40531 | 30,810 |
| Department of Transportation | | |
| Town Aid Road | 12001-DOT57000-17036 | 136,961 |
| Office of Policy and Management | | |
| Property Tax Relief: | | |
| Veteran's Exemptions | 11000-OPM20600-17024 | 3,343 |
| Elderly Circuit Breaker | 11000-OPM20600-17018 | 33,458 |
| Totally Disabled | 11000-OPM20600-17011 | 436 |
| Payment in Lieu of Taxes (PILOT) | 11000-OPM20600-17004 | 18,971 |
| Local Capital Improvement Program | 12050-OPM20600-40254 | 128,689 |
| Judicial Branch | | |
| Parking Fines | 34001-JUD95162-40001 | 2,025 |
| Department of Public Safety | | |
| Police Gas | 11000-DPS32562-10020 | 9,084 |
| Total State Financial Assistance before exempt programs | | 384,585 |
| EXEMPT PROGRAMS | | |
| Department of Education | | |
| Education Cost Sharing | 11000-SDE64370-17041 | 3,144,539 |
| Transportation of School Children | 11000-SDE64370-17027 | 37,720 |
| Excess Cost-Student Based | 11000-SDE64370-17047 | 93,537 |
| Office of Policy and Management | | |
| Municipal Video Competition | 12060-OPM20600-35362 | 208 |
| Municipal Revenue Sharing | 12060-OPM20600-35458 | 82,803 |
| Mashuntucket Pequot and Mohegan Fund Grant | 12009-OPM20600-17005 | 20,482 |
| Total Exempt Programs | | 3,379,289 |
| Total State Financial Assistance | | \$ 3,763,874 |

See notes to schedule.

TOWN OF NEW HARTFORD, CT
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2012

The accompanying schedule of expenditures of state financial assistance includes state grant activity of the Town of New Hartford 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 to the Town of New Hartford, CT, through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including the construction and maintenance of public roads.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of New Hartford, CT conform to accounting principles generally accepted in the United States of America as applicable to Governments.

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 expenditures reported on the Schedule of Expenditures of State Financial Assistance are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulation 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 column of the Schedule of Expenditure 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 Expenditures of State Financial Assistance shall include loans and loan activities. The following is a summary of the various loan program activity for the year ended June 30, 2012:

Rural Economic and Community Development

| | |
|-------------------------|------------------|
| | (93-03) |
| | Prospect St. |
| | <u>Sewers</u> |
| Issue Date | 7/16/1996 |
| Interest Date | 4.5% |
| Original Amount | \$ 96,300 |
| Balance, July 1, 2011 | 51,360 |
| Paid during fiscal year | <u>3,210</u> |
| Balance, June 30, 2012 | <u>\$ 54,570</u> |

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TOWN OF NEW HARTFORD, CT SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

We audited the basic financial statements of the Town of New Hartford, CT as of and for the year ended June 30, 2012 and issued our unqualified report thereon dated December 19, 2012.

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

We have issued an unqualified opinion relating to compliance for major State programs.

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 programs included in the audit:

| <u>State Grantor and Program</u> | <u>State Core - CT Number</u> | <u>Expenditures</u> |
|---|-----------------------------------|---------------------|
| Department of Transportation | | |
| Town Aid Road Grants and Transportation Fund | 12001-DOT57000-17036 | \$ 136,961 |
| Office of Policy and Management | | |
| Local Capital Improvement Program | 12050-OPM20600-40254 | \$ 128,689 |
| • Dollar threshold used to distinguish between type A and type B programs | | \$ <u>100,000</u> |

II. FINANCIAL STATEMENT FINDINGS

- We issued reports, dated December 19, 2012, on internal control over financial reporting and on compliance and other matters based on our audit of financial statements performed in accordance with *Government Auditing Standards*.
- Our report on compliance indicated no reportable instances of noncompliance.
- Our report on internal control over financial reporting indicated a significant deficiency, as described below:

FINDING #12-1

Condition

The Town has begun a process where certain bank accounts, such as the General Fund, are being reviewed by a person independent of the daily accounting; however, other accounts are not undergoing the same independent review.

Context

The Senior Bookkeeper is responsible for recording cash receipts and disbursements, maintaining the general ledger balance, and reconciling the general ledger to the bank statements for the vast majority of bank accounts. Other procedures from previous audits have been implemented, such as changing the mailing addresses of certain accounts to be mailed to the Treasurer's office instead of individual departments.

Effect

Monitoring controls over cash balances, receipts and disbursements from the Town accounts are weakened.

Cause

The size of the Town does not permit full-time staffing sufficient to provide an adequate separation of duties over cash procedures by employees.

Recommendation

In order to strengthen controls over cash accounts, we recommend that the Treasurer review and initial all bank statements monthly.

Views of Responsible Officials and Planned Corrective Actions

Town management will continue to implement this recommendation going forward. Eventually additional bookkeeping/administrative staff will be required to fulfill increasing demand for services. Unfortunately, in the current budget climate, funds are not available to hire additional staff; therefore oversight will continue to be provided by all three members of the Board of Selectman and the Town treasurer. This group manually reviews all paper invoices and checks prior to signature, as well as bank information. To rectify the issue of monthly review, the First Selectman will create a list of all town accounts. This list will serve as a monthly checklist to aid the Treasurer in his review function thereby ensuring that all accounts are reconciled and reviewed and that none are missed in the future.

FINDING #12-2**Condition**

The Town has not completed and adopted its accounting manual concerning certain transaction areas to provide for standard accounting procedures.

Context

The Town should have a complete accounting manual in place which defines in detail the specific controls in place associated with their accounting procedures.

Effect

There is no formally adopted reference in place to document existing procedures or assist new employees in understanding the accounting procedures in place.

Cause

Past practice.

Recommendation

We recommend that the Town complete and adopt an accounting manual that provides written procedures, instructions, and assignments of duties. An accounting manual will help to prevent or reduce misunderstandings, errors, inefficient or untimely accounting records. This manual will help train any new staff hired in the accounting department in the future. We recognize that the Town has begun work on a comprehensive manual, however it has not been completed or approved.

Views of Responsible Officials and Planned Corrective Actions

The manual is currently in draft form. The Town will implement the recommendation of the auditor by completing and adopting this accounting manual.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

- No findings or questioned costs are reported related to State Financial Assistance Programs.