

**Town of New Hartford
State Single Audit
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June 30, 2013**

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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, 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 the financial statements of the Town of New Hartford, CT (Town) which comprise the statement of financial position as of June 30, 2013 and the related statements of activities, and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the 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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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 **#2013-01, #2013-02, #2013-03 and #2013-04** in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

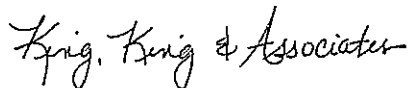
As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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 not required to be reported under *Government Auditing Standards*.

The Town of New Hartford's Response to Findings

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



King, King & Associates, CPAs
Winsted, CT
December 19, 2013

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Report on Compliance for Each Major State Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

Independent Auditor's Report

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

Report on Compliance for Each Major State Program

We have audited the Town's compliance with the types of compliance requirements described in the Office of Policy and Management's *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, 2013. The Town's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major state programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major state program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major State Program

In our opinion, the Town, complied, in all material respects, with the types of 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, 2013.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program 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 material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Financial Assistance Required by the State Single Audit Act

We have audited the financial statements of the Town, as of and for the year ended June 30, 2013 and have issued our report thereon dated December 19, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 as a whole.

King, King & Associates

King, King & Associates, CPAs
December 19, 2013

TOWN OF NEW HARTFORD
Schedule of Expenditures of State Financial Assistance
For the Year Ended June 30, 2013

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	\$ 2,305
Child Nutrition State Matching Grant	11000-SDE64000-16211	1,987
Healthy Foods Initiative	11000-SDE64000-16212	4,316
Connecticut State Library		
Historic Documents Preservation Grants	12060-CSL66094-35150	4,000
Department of Environmental Protection		
Small Town Economic Assistance Program	12060-DEP43720-40531	73,150
Department of Transportation		
Town Aid Road	12001-DOT57000-17036	135,109
Office of Policy and Management		
Property Tax Relief:		
Veteran's Exemptions	11000-OPM20600-17024	3,402
Elderly Circuit Breaker	11000-OPM20600-17018	36,229
Totally Disabled	11000-OPM20600-17011	453
Payment in Lieu of Taxes (PILOT)	11000-OPM20600-17004	18,334
Local Capital Improvement Program	12050-OPM20600-40254	63,496
Judicial Branch		
Parking Fines	34001-JUD95162-40001	1,450
Department of Public Safety		
Police Gas	11000-DPS32562-10020	5,245
Total State Financial Assistance before exempt programs		349,476
EXEMPT PROGRAMS		
Department of Education		
Education Cost Sharing	11000-SDE64370-17041	3,167,900
Transportation of School Children	11000-SDE64370-17027	32,687
Excess Cost-Student Based	11000-SDE64370-17047	112,078
Office of Policy and Management		
Municipal Video Competition	12060-OPM20600-35362	304
Municipal Revenue Sharing	12060-OPM20600-35458	236,621
Mashuntucket Pequot and Mohegan Fund Grant	12009-OPM20600-17005	20,398
Total Exempt Programs		3,569,988
Total State Financial Assistance		\$ 3,919,464

See notes to schedule.

TOWN OF NEW HARTFORD, CT
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2013

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, 2013. 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 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, 2013:

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, 2012	48,150
Paid during fiscal year	<u>(3,210)</u>
Balance, June 30, 2013	<u>\$ 44,940</u>

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TOWN OF NEW HARTFORD, CT SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013 and issued our unmodified report thereon dated December 19, 2013.

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 unmodified 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	\$ 135,109
Office of Policy and Management		
Local Capital Improvement Program	12050-OPM20600-40254	\$ 63,496
Property Tax Relief for Ederly and Totally Disabled Homeowners	11000-OPM-20600-17018	\$ 36,229
• 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, 2013, 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 #2013-01

Criteria:

An effective control over cash receipts and disbursements in town accounts is that bank statements and/or reconciliations should be reviewed and initialed by an individual independent of general ledger maintenance.

Condition:

The Town has established a process whereby most bank accounts are being reviewed by the Treasurer who is independent of the daily accounting; however, this process was not performed consistently on certain inactive accounts throughout the year. These accounts were eventually closed by the end of the fiscal year.

Context:

The accounting department 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. Monitoring is an essential control to be performed by an individual outside of the cash receipt and reconciliation process.

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 within the accounting department.

Recommendation:

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

Views of Responsible Officials and Planned Corrective Actions:

The Town of New Hartford currently holds onto an archaic system comprised of some 29 different bank accounts, far more than similarly sized towns, many of whom have streamlined to between 5 and 10 bank accounts. Further, while online review is possible, and frequently utilized, the technology does not yet exist to provide our Auditors with sufficient "paper trail" to illustrate that all accounts have been reviewed in accordance with GAAP standards. The Town agrees that the Treasurer should continue to review and initial all bank accounts. In an effort to improve practices, the Town has retained an outside accounting consultant to provide oversight, review existing processes and make recommendations regarding streamlining existing accounts and/or procedures.

FINDING #2013-02**Criteria:**

Transfers between bank accounts of the same fund should be recorded as transfers, with no effect on revenue or expenditures.

Condition:

The accounting department recorded certain inter-bank transfers as revenue in the General Fund.

Context:

The Town moved its accounts from one bank to another. Residual balances were initially left in the original bank accounts for an interim period before the accounts were closed and transferred to the new bank.

Effect:

Assets and revenues were overstated.

Cause:

Unknown.

Recommendation:

We recommend the all bank accounts, whether active or inactive, be reconciled monthly to the general ledger.

Views of Responsible Officials and Planned Corrective Actions:

The Town of New Hartford bookkeeping department, in closing dormant Bank of America accounts, improperly booked two outstanding balances as new revenue to the town. The Town disagrees that "inadequate staffing" was the cause of this error. Transferring all bank account from one financial institution to another is a rare occurrence. Upon review of the entire situation, it has become apparent that a lack of knowledge of proper procedures during this atypical situation was the root cause of the error. Additionally, when confronted with an atypical situation, employee(s) within the department failed to seek counsel on how to appropriately book the transaction(s). To remedy the situation, the Town has retained an outside accounting consultant to provide oversight, review existing processes and to offer guidance and training to bookkeeping department employees.

Finding # 2013-03

Criteria:

Expenditures are required to be reported by Type: current, capital, and debt service.

Condition:

Unexpended balances from line items budgeted for operating expenses were used to purchase capital assets.

Context:

Capital asset purchases were coded to the annual allocation to Regional Refuse Disposal 1. These purchases were properly approved; however, budgetary transfers to appropriate line items were needed to adequately report purchases.

Effect:

Budgeted line items overstate the amounts paid to an outside agency.

Cause:

Unexpended line items were correctly appropriated for other expenditures; however, the funds were not transferred to reflect the change in the line items and the expenditure was not charged to an account that reflects the nature of the expenditure.

Recommendation:

We recommend the Town reflect appropriated funds to cover capital purchases in capital line items.

Views of Responsible Officials and Planned Corrective Actions:

The Plow Truck under discussion was to be financed for three years. Mid-year, RRDD#1 notified the Town that a credit was to be granted (in the form of a reduction in annual assessment). The credit provided sufficient funds to allow the Town to acquire the Plow Truck with cash. The Town sought guidance and approval from the Auditor for using the funds in this manner. After receiving approval from Auditor, the Board of Selectman proposed purchasing the Plow Truck with the RRDD#1 funds and the Board of Finance approved the request. That said, it has been the policy of the Board of Finance to complete a single reconciliation of all budget line item transfers at the end of the fiscal year. At no time was it mentioned that a mid-year line item transfer was required prior to purchase. As such, the Town acquired the truck, utilizing funds from the RRDD#1 line item, as approved by the Board of Finance, within their statutory authority. This was an atypical use of funds that infrequently occurs. To remedy the situation, in the future, the Town will specifically request a mid-year line item transfer to appropriately reflect the specific use of funds within our audit thus increasing transparency to our public. Additionally, the Town has retained an outside accounting consultant to provide oversight and to offer guidance and training to bookkeeping department employees.

Finding # 2013-04

Criteria:

All accounts under the control of the Town should be maintained and reviewed in the Town's accounting department.

Condition:

A complete accounting of the Cemetery funds was not prepared for the accounts of the Cemetery.

Context:

The Town and Cemetery Association are currently seeking a legal interpretation concerning fiduciary responsibility of Cemetery Funds. The Cemetery Association asserts that it is solely responsible for the funds; however, the funds are maintained in a bank account in the Town's name and tax identification number.

Effect:

Accounts held under the Town's name are not maintained by the Town's accounting department.

Cause:

Past practice. The account has historically been in the Town's name, but not maintained by Town employees. This has been reported as an audit finding in previous years.

Recommendation:

We recommend that the Town determine fiduciary responsibility for the accounts. If the Town is the fiduciary, the accounts should be maintained in the accounting department by Town personnel. If the Cemetery Association is determined to be the fiduciary, the accounts should be closed and transferred to the Cemetery, unless the Cemetery delegates the accounting responsibilities to Town employees.

Views of Responsible Officials and Planned Corrective Actions:

The Town is reviewing the legal status of the Town Hill Cemetery, an organization run by volunteers for many years. The Town Ordinance governing use/operation of the Cemetery is vague and obsolete. The Town is seeking guidance from the Town Attorney with regard to statutory authority in this matter. Until there is a resolution, the Town has required that all financial information (accounts and check books) remain in the possession of the Town, to be reconciled and reviewed by the bookkeeping department and Treasurer and subject to review by our Auditor.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

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

