

**TOWN OF EAST HADDAM, CONNECTICUT**

**STATE SINGLE AUDIT REPORT**

**JUNE 30, 2008**

**TOWN OF EAST HADDAM, CONNECTICUT**

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**Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program, on Internal Control over  
Compliance in Accordance with the State Single Audit Act  
and on the Schedule of Expenditures of State Financial Assistance**

To the Board of Finance  
Town of East Haddam, Connecticut

Compliance

We have audited the compliance of the Town of East Haddam, Connecticut, with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that are applicable to each of its major state programs for the year ended June 30, 2008. The Town of East Haddam, Connecticut'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 Town of East Haddam, Connecticut's management. Our responsibility is to express an opinion on the Town of East Haddam, Connecticut'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 of East Haddam, Connecticut'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 Town of East Haddam, Connecticut's compliance with those requirements.

In our opinion, the Town of East Haddam, Connecticut, complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of the Town of East Haddam, Connecticut, 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 of East Haddam, Connecticut's internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to

determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 of East Haddam, Connecticut's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the Town's internal control that might be 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, each major fund and the aggregate remaining fund information of the Town of East Haddam, Connecticut, as of and for the year ended June 30, 2008 and have issued our report thereon dated November 3, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of East Haddam, Connecticut's basic 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Blum, Shapiro & Company, P.C.*

November 3, 2008

**TOWN OF EAST HADDAM, CONNECTICUT**

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**

**FOR THE YEAR ENDED JUNE 30, 2008**

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
<b>Board of Education and Services for the Blind</b>		
Education Aid Blind/Visually Impaired Children	11000-ESB65020-12060	\$ <u>8,633</u>
<b>State Comptroller</b>		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OSC15910-17004	22,377
Mashantucket Pequot/Mohegan Fund	12009-OSC15910-17005	52,568
Boat Grant	12027-OSC15910-40211	<u>14,537</u>
Total State Comptroller		<u>89,481</u>
<b>Department of Economic and Community Development</b>		
Small Town Economic Assistance Program (STEAP)	12052-ECD46350-42411	<u>44,073</u>
<b>Department of Education</b>		
Child Nutrition Program - (School Lunch State Match)	11000-SDE64370-16072-82051	3,674
Adult Education	11000-SDE64370-17030	5,074
Youth Services Bureau	11000-SDE64370-17052	14,000
Youth Services Enhancement	11000-SDE64000-16201	5,000
Magnet Schools	11000-SDE64370-17057	39,000
Minor Capital Improvements and Wiring - School Readiness Centers	12052-SDE64370-42860	<u>16,500</u>
Total Department of Education		<u>83,248</u>
<b>Department of Environmental Protection</b>		
Protected Open Space Watershedland Acquisition Grant Program	12052-DEP44420-43016	<u>405,700</u>

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**TOWN OF EAST HADDAM, CONNECTICUT**

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
(CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
<b>Connecticut State Library</b>		
Grants to Public Libraries	11000-CSL66051-17003	\$ 1,459
Connecticard Payments	11000-CSL66051-17010	66
Historic Documents Preservation Grants	12060-CSL66094-35150	<u>7,000</u>
Total Connecticut State Library		<u>8,525</u>
<b>Office of Policy and Management</b>		
Reimbursement of Property Taxes - Disability Exemption	11000-OPM20600-17011	833
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	57,564
Property Tax Relief for Veterans	11000-OPM20600-17024	6,210
Property Tax Relief for Manufacturing Machinery and Equipment and Commercial Vehicles	11000-OPM20600-17031	2,901
Local Capital Improvement Program	12050-OPM20600-40254	<u>90,340</u>
Total Office of Policy and Management		<u>157,848</u>
<b>Department of Transportation</b>		
Town Aid Roads Grants Transportation Fund	12001-DOT57000-17036	<u>167,853</u>
<b>Total State Financial Assistance Before Exempt Programs</b>		<u>965,362</u>

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**TOWN OF EAST HADDAM, CONNECTICUT**

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
(CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2008**

<b>State Grantor/Program Title</b>	<b>State Grant Program Core-CT Number</b>	<b>Expenditures</b>
<b>Exempt Programs</b>		
<b>Department of Education</b>		
Public School Transportation	11000-SDE64370-17027	\$ 116,794
Educational Cost Sharing	11000-SDE64370-17041	3,608,535
Excess Costs Student Based and Equity	11000-SDE64370-17047	690,465
School Construction Grants	13009-SDE64370-40896	65,200
School Construction Grants	13010-SDE64370-40901	<u>11,988,432</u>
Total Exempt Programs		<u>16,469,426</u>
<b>Total State Financial Assistance</b>		<b>\$ <u><u>17,434,788</u></u></b>

**TOWN OF EAST HADDAM, CONNECTICUT**

**NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**

**FOR THE YEAR ENDED JUNE 30, 2008**

Various departments and agencies of the State of Connecticut have provided financial assistance to the Town of East Haddam, Connecticut, through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. The financial assistance programs fund several programs including general government activities, community development and education.

Note 1 - **Summary of Significant Accounting Policies:**

The accounting policies of the Town of East Haddam, Connecticut, conform to accounting principles generally accepted in the United States of America as applicable to government entities. The following is a summary of the more significant policies relating to the aforementioned grant programs.

**Basis of Accounting** - The financial statements contained in the Town of East Haddam, Connecticut's annual audit report are prepared on the modified accrual basis of accounting. The following is a summary of such basis:

Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are recorded when the related fund liability is incurred, if measurable.

The schedule of expenditures of state financial assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Sections 4-236-22), 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 expenditures of state financial assistance.

Note 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, 2008:

Department of Environmental Protection:

Clean Water Fund (173-P):

Balance - Beginning of Year	\$	739,594
Paid		<u>82,177</u>
Balance - End of Year	\$	<u><u>657,417</u></u>



**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Finance  
Town of East Haddam, Connecticut

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of East Haddam, Connecticut, as of and for the year ended June 30, 2008, which collectively comprise the Town of East Haddam, Connecticut's basic financial statements, and have issued our report thereon dated November 3, 2008. 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

In planning and performing our audit, we considered the Town of East Haddam, Connecticut's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of East Haddam, Connecticut's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of East Haddam, Connecticut's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Town's internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 08-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the Town's internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-01 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of East Haddam, Connecticut'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 Town of East Haddam, Connecticut, in a separate letter dated November 3, 2008.

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

*Blum, Shapiro & Company, P.C.*

November 3, 2008

**TOWN OF EAST HADDAM, CONNECTICUT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

**I. Summary of Auditors' Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  X  yes      no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?      yes  X  none reported

Noncompliance material to financial statements noted?      yes  X  no

**State Financial Assistance**

Internal control over major programs:

- Material weakness(es) identified?      yes  X  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?      yes  X  none reported

Type of auditor's 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  X  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 Environmental Protection: Protected Open Space Watershedland Acquisition Grant Program	12052-DEP44420- 43016	\$ 405,700
Department of Transportation: Town Aid Roads Grants Transportation Fund	12001-DOT57000- 17036	167,853

## II. Financial Statement Findings

1. We issued reports, dated November 3, 2008, on internal control over financial reporting and on compliance based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
2. Our report on compliance indicated no reportable instances of noncompliance.
3. Our report on internal control over financial reporting indicated one significant deficiency regarding general ledger maintenance which is described below:

**08-01**                      General Ledger Maintenance

**Criteria**                      The accounting records should be maintained, complete and balanced during the year and at year end. Accounting records and adjusting entries should be completed prior to the start of the audit.

**Condition**                      The accounting records were not monitored and reviewed at year end. Numerous accounts were noted to be out of balance, and all fund activity was not properly recorded. Transactions and accounts requiring adjustments included but were not limited to the following:

- Bond proceeds were netted with expenditures.
- Bond proceeds were recorded as a liability rather than other financing sources in the fund financial statements.
- \$3.5 million dollars of school construction receivable was not recorded.
- Expenditures and related revenue on the bond anticipation notes for the Middle School project were budgeted in the General Fund but recorded within the Capital Projects Fund.
- Interfund due to/due from were not reconciled at year end.
- Board of Education expenditures were not reconciled timely with the expenditures reported by the Town.

**Questioned Costs**      None

**Context**                      The Town was not reconciling balance sheet accounts during the fiscal year, and transactions were not recorded consistent with governmental accounting principles.

**Effect**                      Substantial adjustments were needed to present financial statements in accordance with generally accepted accounting principles.

**Cause** The Town has a relatively inexperienced Finance Director and does not have written policies and procedures. Written policies and procedures would provide guidance and allow for transitions to occur smoothly.

**Recommendation** We recommend that additional training be made available to the Finance Director. Additionally, we recommend that policies and procedures be documented.

The procedures should include periodic monitoring of accounts and year end closing procedures as well as reviewing inter-fund accounts, accounts receivable and payable, deferred revenues and cash. Trial balances should be reviewed before the start of the audit.

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

- No findings or questioned costs are reported relating to state financial assistance programs.