

TOWN OF AVON, CONNECTICUT

STATE SINGLE AUDIT REPORT

JUNE 30, 2012

TOWN OF AVON, CONNECTICUT

STATE SINGLE AUDIT REPORT

JUNE 30, 2012

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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 Members of the Board of Finance
Town of Avon, Connecticut

Compliance

We have audited the Town of Avon, Connecticut'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 the Town of Avon, Connecticut's major state program for the year ended June 30, 2012. The Town of Avon, Connecticut's major state program is 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 its major state program is the responsibility of the Town of Avon, Connecticut's management. Our responsibility is to express an opinion on the Town of Avon, 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 Avon, 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 Avon, Connecticut's compliance with those requirements.

In our opinion, the Town of Avon, Connecticut, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2012.

Internal Control over Compliance

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

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, each major fund, and the aggregate remaining fund information of the Town of Avon, Connecticut, as of and for the year ended June 30, 2012 and have issued our report thereon dated March 27, 2013, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the Town of Avon, Connecticut'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 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.

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

West Hartford, Connecticut
March 27, 2013

**TOWN OF AVON, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2012**

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Department of Education		
Sheff Settlement	11000-SDE84000-12457	\$ 102,300
Youth Services Bureau - Enhancement	11000-SDE84000-16201	6,250
Child Nutrition State Matching Grant	11000-SDE64000-16211	9,705
Adult Education	11000-SDE64000-17030	1,454
Youth Services Bureau	11000-SDE64000-17052	14,000
Open Choice	11000-SDE64000-17053	<u>382,742</u>
Total Department of Education		<u>516,451</u>
Connecticut State Library		
Grants to Public Libraries	11000-CSL66051-17003	1,245
ConnectiCard Payments	11000-CSL66051-17010	3,474
Construction Grants to Public Libraries	12052-CSL66051-43064 & 12052-CSL66051-42862	1,000,000
Historic Documents Preservation Grants	12060-CSL66094-35150	<u>3,500</u>
Total Connecticut State Library		<u>1,008,219</u>
Office of Policy and Management		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OPM20600-17004	92,465
Payment in Lieu of Taxes (PILOT) on Private Colleges and General Hospitals	11000-OPM20600-17006	3,232

(Continued on next page)

**TOWN OF AVON, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012**

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Reimbursement of Property Taxes - Disability Exemption	11000-OPM20600-17011	\$ 1,077
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	85,495
Property Tax Relief for Veterans	11000-OPM20600-17024	5,458
Local Capital Improvement Program	12050-OPM20600-40254	<u>106,650</u>
Total Office of Policy and Management		<u>294,377</u>
Department of Emergency Services and Public Protection		
State Assets Forfeiture Revolving Fund	12060-DPS32155-35142	<u>264</u>
Department of Transportation		
Town Aid Road Grants Transportation Fund	12001-DOT57000-17036	<u>112,910</u>
Total State Financial Assistance Before Exempt Programs		<u>1,932,221</u>
Exempt Programs		
Office of Policy and Management		
Mashantucket Pequot and Mohegan Fund Grant	12009-OPM20600-17005	15,035
Municipal Revenue Sharing	12060-OPM20600-35458	154,179
Municipal Video Competition	12060-OPM20600-35362	<u>7,365</u>
Total Office of Policy and Management		<u>176,579</u>

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**TOWN OF AVON, CONNECTICUT
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012**

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Department of Education		
Public School Transportation	11000-SDE64000-17027	\$ 8,594
Educational Cost Sharing	11000-SDE64000-17041	1,254,193
Excess Costs Student Based and Equity	11000-SDE64000-17047	<u>876,712</u>
Total Department of Education		<u>2,139,499</u>
Department of Public Works		
School Construction Grants	13009-DPW27610-40896	5,568
School Construction Grants	13010-DPW27610-40901	<u>188,956</u>
Total Department of Public Works		<u>194,524</u>
Total Exempt Programs		<u>2,510,602</u>
Total State Financial Assistance		\$ <u><u>4,442,823</u></u>

The accompanying notes are an integral part of this schedule

**TOWN OF AVON, CONNECTICUT
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of state financial assistance (the Schedule) includes the state grant activity of the Town of Avon, Connecticut, under programs of the State of Connecticut for the year ended June 30, 2012. 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. Because the Schedule presents only a selected portion of the operations of the Town of Avon, Connecticut, it is not intended to, and does not, present the financial position, changes in fund balance, changes in net assets or cash flows of the Town of Avon, Connecticut.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Avon, Connecticut, conform to accounting principles generally accepted in the United States of America as applicable to governmental organizations. The information in the Schedule is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Expenditures reported on the Schedule are presented on the modified accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations 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.

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Independent Auditors' 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*

To the Members of the Board of Finance
Town of Avon, Connecticut

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Avon, Connecticut, as of and for the year ended June 30, 2012, which collectively comprise the Town of Avon, Connecticut's basic financial statements, and have issued our report thereon dated March 27, 2013. 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 of Avon, Connecticut, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Avon, 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 Avon, Connecticut's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Avon, Connecticut's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified

a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2012-01, that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Avon, 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 Avon, Connecticut, in a separate letter dated March 27, 2013.

The Town of Avon, Connecticut's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Avon, Connecticut's responses, and, accordingly, we express no opinion on the responses.

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

West Hartford, Connecticut
March 27, 2013

**TOWN OF AVON, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes 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? yes X none reported

Type of auditors' 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 program included in the audit:

<u>State Grantor and Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
Connecticut State Library:		
Construction Grants to Public Libraries	12052-CSL66051-43064 & 12052-CSL66051-4282	\$ 1,000,000

- Dollar threshold used to distinguish between type A and type B programs: \$200,000

II. FINANCIAL STATEMENT FINDINGS

2012-01	Financial Reporting
Type of Finding:	Significant deficiency in internal control over financial reporting
Criteria:	The financial statements are the responsibility of management, and, accordingly, the Town should have internal control over financial reporting that provides reasonable assurance that the financial statements and related notes are prepared in conformity with accounting principles generally accepted in the United States of America.
Condition:	<p>The Town experienced significant delays in closing the general ledger due to a long-term finance department employee retiring on July 1, 2012 coupled with a new systems implementation.</p> <p>We noted instances where input was duplicated and journal entries and transfers between accounts were incorrect. In addition, the Town was unable to reconcile a significant balance in an account which was created as a result of the new systems implementation. We feel that the contributing factors to the deficiencies mentioned above include:</p> <ul style="list-style-type: none">• Lack of support and meaningful training on the new system• Lack of well-defined accounting policies and procedures <p>The existing procedures before the systems implementation were never documented.</p>
Effect:	The basic financial statements may not be prepared in conformity with accounting principles generally accepted in the United States of America.
Cause:	Lack of written accounting procedures along with a lack of an effective systems implementation.

Recommendation: It is imperative that the Town establish review and reconciliation policies and procedures that incorporate its new system. Many of the problems identified by the audit process could have been avoided or brought to the attention of management much earlier if the records were reviewed and reconciled on a timely basis by appropriate personnel.

We suggest that a formal accounting policies and procedures manual be developed, documented and distributed to all employees. The manual should contain such important processes and procedures as:

- Cash reconciliations
- General ledger account reconciliations
- Journal entry procedures and approval
- Proper posting of due to/from interfund accounts
- Proper posting of transfer interfund accounts
- Monthly, quarterly and annual reconciliations
- Provision for supervisory review
- General Fund BOE reconciliation
- BOE grant activity reconciliation

In addition, we suggest that the finance department accounting staff needs additional training on the accounting software. We recommend that the finance director and Town accountant receive training in the use of software processing functions, specifically in the areas of interfund accounts, pooled cash and control accounts. The Finance Director might contact other municipalities that are using this software version successfully in addition to the training. We recommend that this training take place as soon as possible, to help ensure that the upcoming year-end close process is efficient and effective.

**Management
Response and
Planned
Corrective
Action**

There is an existing online reference library for the financial system (AUC) procedures with strong internal controls which logs input, processing steps and user modifications for all operational/functional duties of purchasing, disbursements, voucher preparation, revenues, cash receipts, payroll, human resources and general ledger. We acknowledge that the staff was not fully trained to accomplish all the tasks prior to the upgrade as duties performed by the Town accountant position had never been delegated to present staff, and that the expertise resided primarily with one employee. We have discussed an approach of using the administrative service services study recommendations by Matrix consulting as a starting point for identifying position duties for an accounting procedures manual and will start this spring.

**Management
Response and
Planned
Corrective
Action (cont.)**

A number of significant and positive changes have been made:

- Cash reconciliations
- General ledger account reconciliations

In Fiscal Year 2011-2012 and prior, the operating cash account housed cash for all bank accounts. This general ledger account has been split into eight general ledger cash accounts to represent each bank account. Cash will be reconciled to the bank and the general ledger on a timely basis.

Noncash items no longer flow through cash. Transactions are recorded via a journal entry with no impact to cash.

- Journal entry procedures and approval

We acknowledge that a journal entry form does not exist. We will create a form and start using it for the remainder of Fiscal Year 2012-2013. The Town accountant will approve staff journal entries and the Finance Director will approve Town accountant journal entries.

- Proper posting of due to/from interfund accounts
- Proper posting of transfer interfund accounts

A member of the audit team recommended that all due to/from transactions be programmed in AUC to flow directly to their respective receivable account rather than all transactions flowing through one general fund receivable. AUC responded that this cannot be done. We will contact other municipalities using AUC to find a successful resolution of transactions similar to ours. In the interim, the total of the "Due to General Fund" accounts are reconciled to the General Fund's receivable "Due from" account. Differences are analyzed and corrected.

- Monthly, quarterly and annual reconciliations

Currently monthly revenue and monthly expenditure summary reports are reconciled to their corresponding revenue control and expenditure control accounts in the general ledger. Differences are analyzed and resolved. Monthly and quarterly budget to actual reports for revenue and expenditure summaries are reviewed and prepared for management, Town Council, Board of Finance and Board of Education identifying and explaining significant variances from the budget. Quarterly budget to actual data is scrutinized in detail including investigation of unusual variances and discussion with various departments.

**Management
Response and
Planned
Corrective
Action (cont.)**

- Provision for supervisory review

Supervisory review controls currently exist in the automated processing functions. We will work on documenting procedural controls.

- General Fund BOE reconciliation

Created and implemented new forms to track BOE financial activity. Accounting staff has met with BOE staff and the Assistant Superintendent for Finance and Operations to review forms and proper implementation/process. Information has improved significantly.

- BOE grant activity reconciliation

The Town accountant and the Board of Education accountant reconciled all BOE activity including grant totals. Form ED 141 filed by the Board of Education was presented but not reconciled to the Town records. We will include this step in all future BOE grant reconciliations.

Regarding the recommendation “that the Finance Director and Town accountant receive training in the use of software processing functions, specifically in the areas of interfund accounts, pooled cash, and control accounts”:

We have inquired about training with AUC (Town’s financial system vendor). Unfortunately they do not offer group training, but they will go the client’s location to train on an individual basis for a substantial fee.

This past winter, the Town paid for three such days to address issues for Fiscal Year 2011-2012. Imported revenue transactions, the payroll conversion imported from the legacy financial system and prior year accounts payable did not post to the general ledger correctly. Upon advice from AUC, corrective posting entries (by Finance and Accounting staff) resulted in compounding errors often requiring AUC overrides. Apparently, the software developer does not have a background in accounting.

Accounting staff have regularly engaged in a number of “Go To Meetings” with key consultants of AUC for assistance on a specific procedure, such as recording an encumbrance via JE. If AUC begins to offer training, the Town will attend any applicable courses. We will also contact other locations using AUC to find a municipality to discuss the successful resolution of transactions similar to ours.

**Management
Response and
Planned
Corrective
Action (cont.)**

In the fall of 2012, we did contact the Town of Coventry for possible advice on various posting issues; unfortunately, their situation was different from ours. Recently we have been advised by a member of your audit team that Coventry could be a resource for us in the area of interfund accounts and pooled cash. We will contact them in April to discuss.

Since this summer, we have improved our operational standards by cross training staff on key duties rather than only the Town accountant as in the past. We have instituted key controls on cash reconciliations and proper general ledger reporting. We are committed to further these improvements and welcome any auditor recommendations that can improve our operations.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

No matters were reported.

TOWN OF AVON, CONNECTICUT

FEDERAL SINGLE AUDIT REPORT

JUNE 30, 2012

**TOWN OF AVON, CONNECTICUT
FEDERAL SINGLE AUDIT REPORT**

JUNE 30, 2012

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program, on Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

To the Members of the Board of Finance
Town of Avon, Connecticut

Compliance

We have audited the Town of Avon, Connecticut's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Avon, Connecticut's major federal programs for the year ended June 30, 2012. The Town of Avon, Connecticut's major federal 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 federal programs is the responsibility of the Town of Avon, Connecticut's management. Our responsibility is to express an opinion on the Town of Avon, 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Avon, 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 Avon, Connecticut's compliance with those requirements.

In our opinion, the Town of Avon, Connecticut, 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 federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the Town of Avon, Connecticut, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Avon, Connecticut's internal control over compliance with the requirements that could have a direct and material effect on a major federal 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 OMB Circular A-133, 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 Avon, Connecticut'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 federal 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 federal 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 Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Avon, Connecticut, as of and for the year ended June 30, 2012 and have issued our report thereon dated March 27, 2013, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the Town of Avon, Connecticut's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 federal awards 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 use of management, the Board of Finance, the Town Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
March 27, 2013

**TOWN OF AVON, CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number/ Project Number</u>	<u>Expenditures</u>
United States Department of Agriculture <i>Passed Through the State of Connecticut Department of Education:</i>			
National School Lunch Program	10.555	12060-SDE64370-20560	\$ <u>152,021</u>
United States Department of Education <i>Passed Through the State of Connecticut Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	12060-SDE64370-20679	64,512
Special Education Cluster:			
Special Education - Grants to States	84.027	12060-SDE64370-20977	\$ 543,843
Special Education - Preschool Grants	84.173	12060-SDE64370-20983	22,342
Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391	12060-SDE64370-29011	<u>32,408</u>
			598,593
Career and Technical Education - Basic Grants to States	84.048	12060-SDE64370-20742	17,404
English Language Acquisition Grants	84.365	12060-SDE64370-20868	3,795
Improving Teacher Quality State Grants	84.367	12060-SDE64370-20858	15,012
Education Jobs Fund	84.410	12060-SDE64370-22405	<u>73,140</u>
Total United States Department of Education			<u>772,456</u>

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**TOWN OF AVON, CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number/ Project Number</u>	<u>Expenditures</u>
United States Department of Homeland Security			
<i>Passed Through the State of Connecticut Department of Emergency Services and Public Protection:</i>			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	12060-DPS32985-21891	\$ 1,875,220
Emergency Management Performance Grants	97.042	12060-DPS32982-21881	<u>1,739</u>
Total United States Department of Homeland Security			<u>1,876,959</u>
United States Department of Justice			
<i>Direct Programs:</i>			
Edward Byrne Memorial Formula Grant Program	16.579		14,353
Public Safety Partnership and Community Policing Grants COPS	16.710		<u>40,139</u>
Total United States Department of Justice			<u>54,492</u>
United States Department of Transportation			
Highway Planning and Construction Cluster:			
<i>Passed Through the State of Connecticut Department of Transportation:</i>			
Highway Planning and Construction	20.205	*	\$ 431,248
<i>Passed Through the State of Connecticut Department of Energy and Environmental Protection:</i>			
Recreational Trails Program	20.219	12060-DEP44321-20296	<u>32,241</u>
			<u>463,489</u>

(Continued on next page)

**TOWN OF AVON, CONNECTICUT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number/ Project Number</u>	<u>Expenditures</u>
<i>Department of Energy Passed Through the State of Connecticut Department of Energy and Environmental Protection:</i>			
Energy Efficiency and Conservation Block Grant Program, Recovery Act	81.128	12060-DEP44720-29009	\$ <u>60,399</u>
Total Federal Awards Expended			\$ <u>3,379,816</u>

* Project number not available

The accompanying notes are an integral part of this schedule

**TOWN OF AVON, CONNECTICUT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Town of Avon, Connecticut, under programs of the federal government for the year ended June 30, 2012. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Because the Schedule presents only a selected portion of the operations of the Town of Avon, Connecticut, it is not intended to, and does not, present the financial position, changes in fund balance, changes in net assets or cash flows of the Town of Avon, Connecticut.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - NONCASH AWARDS

Donated commodities in the amount of \$46,011 are included in the Department of Agriculture's National School Lunch Program, CFDA #10.555. The amount represents the market value of commodities received.

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Independent Auditors' 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*

To the Members of the Board of Finance
Town of Avon, Connecticut

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Avon, Connecticut, as of and for the year ended June 30, 2012, which collectively comprise the Town of Avon, Connecticut's basic financial statements, and have issued our report thereon dated March 27, 2013. 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 of Avon, Connecticut, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Avon, 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 Avon, Connecticut's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Avon, Connecticut's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified

a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2012-01, that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Avon, 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 Avon, Connecticut, in a separate letter dated March 27, 2013.

The Town of Avon, Connecticut's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Avon, Connecticut's responses, and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Finance, the Town Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
March 27, 2013

**TOWN OF AVON, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes none reported
- Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes X no

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
97.036 20.205/20.219	Disaster Grants - Public Assistance (Presidentially Declared Disasters) Highway Planning and Construction Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

II. FINANCIAL STATEMENT FINDINGS

2012-01	Financial Reporting
Type of Finding:	Significant deficiency in internal control over financial reporting
Criteria:	The financial statements are the responsibility of management, and, accordingly, the Town should have internal control over financial reporting that provides reasonable assurance that the financial statements and related notes are prepared in conformity with accounting principles generally accepted in the United States of America.
Condition:	<p>The Town experienced significant delays in closing the general ledger due to a long-term finance department employee retiring on July 1, 2012 coupled with a new systems implementation.</p> <p>We noted instances where input was duplicated and journal entries and transfers between accounts were incorrect. In addition, the Town was unable to reconcile a significant balance in an account which was created as a result of the new systems implementation. We feel that the contributing factors to the deficiencies mentioned above include:</p> <ul style="list-style-type: none">• Lack of support and meaningful training on the new system• Lack of well-defined accounting policies and procedures <p>The existing procedures before the systems implementation were never documented.</p>
Effect:	The basic financial statements may not be prepared in conformity with accounting principles generally accepted in the United States of America.
Cause:	Lack of written accounting procedures along with a lack of an effective systems implementation.

Recommendation: It is imperative that the Town establish review and reconciliation policies and procedures that incorporate its new system. Many of the problems identified by the audit process could have been avoided or brought to the attention of management much earlier if the records were reviewed and reconciled on a timely basis by appropriate personnel.

We suggest that a formal accounting policies and procedures manual be developed, documented and distributed to all employees. The manual should contain such important processes and procedures as:

- Cash reconciliations
- General ledger account reconciliations
- Journal entry procedures and approval
- Proper posting of due to/from interfund accounts
- Proper posting of transfer interfund accounts
- Monthly, quarterly and annual reconciliations
- Provision for supervisory review
- General Fund BOE reconciliation
- BOE grant activity reconciliation

In addition, we suggest that the finance department accounting staff needs additional training on the accounting software. We recommend that the finance director and Town accountant receive training in the use of software processing functions, specifically in the areas of interfund accounts, pooled cash and control accounts. The Finance Director might contact other municipalities that are using this software version successfully in addition to the training. We recommend that this training take place as soon as possible, to help ensure that the upcoming year-end close process is efficient and effective.

**Management
Response and
Planned
Corrective
Action**

There is an existing online reference library for the financial system (AUC) procedures with strong internal controls which logs input, processing steps and user modifications for all operational/functional duties of purchasing, disbursements, voucher preparation, revenues, cash receipts, payroll, human resources and general ledger. We acknowledge that the staff was not fully trained to accomplish all the tasks prior to the upgrade as duties performed by the Town accountant position had never been delegated to present staff, and that the expertise resided primarily with one employee. We have discussed an approach of using the administrative service services study recommendations by Matrix consulting as a starting point for identifying position duties for an accounting procedures manual and will start this spring.

**Management
Response and
Planned
Corrective
Action (cont.)**

A number of significant and positive changes have been made:

- Cash reconciliations
- General ledger account reconciliations

In Fiscal Year 2011-2012 and prior, the operating cash account housed cash for all bank accounts. This general ledger account has been split into eight general ledger cash accounts to represent each bank account. Cash will be reconciled to the bank and the general ledger on a timely basis.

Noncash items no longer flow through cash. Transactions are recorded via a journal entry with no impact to cash.

- Journal entry procedures and approval

We acknowledge that a journal entry form does not exist. We will create a form and start using it for the remainder of Fiscal Year 2012-2013. The Town accountant will approve staff journal entries and the Finance Director will approve Town accountant journal entries.

- Proper posting of due to/from interfund accounts
- Proper posting of transfer interfund accounts

A member of the audit team recommended that all due to/from transactions be programmed in AUC to flow directly to their respective receivable account rather than all transactions flowing through one general fund receivable. AUC responded that this cannot be done. We will contact other municipalities using AUC to find a successful resolution of transactions similar to ours. In the interim, the total of the "Due to General Fund" accounts are reconciled to the General Fund's receivable "Due from" account. Differences are analyzed and corrected.

- Monthly, quarterly and annual reconciliations

Currently monthly revenue and monthly expenditure summary reports are reconciled to their corresponding revenue control and expenditure control accounts in the general ledger. Differences are analyzed and resolved. Monthly and quarterly budget to actual reports for revenue and expenditure summaries are reviewed and prepared for management, Town Council, Board of Finance and Board of Education identifying and explaining significant variances from the budget. Quarterly budget to actual data is scrutinized in detail including investigation of unusual variances and discussion with various departments.

**Management
Response and
Planned
Corrective
Action (cont.)**

- Provision for supervisory review

Supervisory review controls currently exist in the automated processing functions. We will work on documenting procedural controls.

- General Fund BOE reconciliation

Created and implemented new forms to track BOE financial activity. Accounting staff has met with BOE staff and the Assistant Superintendent for Finance and Operations to review forms and proper implementation/process. Information has improved significantly.

- BOE grant activity reconciliation

The Town accountant and the Board of Education accountant reconciled all BOE activity including grant totals. Form ED141 filed by the Board of Education was presented but not reconciled to the Town records. We will include this step in all future BOE grant reconciliations.

Regarding the recommendation “that the Finance Director and Town accountant receive training in the use of software processing functions, specifically in the areas of interfund accounts, pooled cash, and control accounts”:

We have inquired about training with AUC (Town’s financial system vendor). Unfortunately they do not offer group training, but they will go the client’s location to train on an individual basis for a substantial fee.

This past winter, the Town paid for three such days to address issues for Fiscal Year 2011-2012. Imported revenue transactions, the payroll conversion imported from the legacy financial system and prior year accounts payable did not post to the general ledger correctly. Upon advice from AUC, corrective posting entries (by Finance and Accounting staff) resulted in compounding errors often requiring AUC overrides. Apparently, the software developer does not have a background in accounting.

Accounting staff have regularly engaged in a number of “Go To Meetings” with key consultants of AUC for assistance on a specific procedure, such as recording an encumbrance via JE. If AUC begins to offer training, the Town will attend any applicable courses. We will also contact other locations using AUC to find a municipality to discuss the successful resolution of transactions similar to ours.

**Management
Response and
Planned
Corrective
Action (cont.)**

In the fall of 2012, we did contact the Town of Coventry for possible advice on various posting issues; unfortunately, their situation was different from ours. Recently we have been advised by a member of your audit team that Coventry could be a resource for us in the area of interfund accounts and pooled cash. We will contact them in April to discuss.

Since this summer, we have improved our operational standards by cross training staff on key duties rather than only the Town accountant as in the past. We have instituted key controls on cash reconciliations and proper general ledger reporting. We are committed to further these improvements and welcome any auditor recommendations that can improve our operations.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.