FEDERAL SINGLE AUDIT

AND

STATE SINGLE AUDIT REPORTS

CITY OF DERBY, CONNECTICUT

YEAR ENDED JUNE 30, 2017

2018 APR 3 AM 9:40

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AND CONSULTANTS

FEDERAL SINGLE AUDIT AND STATE SINGLE AUDIT REPORTS
CITY OF DERBY, CONNECTICUT
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Ansonia
158 Main Street, Suite 301
Ansonia, Connecticut 06401
P: 203-732-2311

Killingworth
166 Route 81
Killingworth, Connecticut 06419
P: 860-663-0110

New Haven
900 Chapel Street, Suite 620
New Haven, Connecticut 06510
P: 203-773-0384

Stratford
2296 Main Street
Stratford, Connecticut 06615
P: 203-377-8473

Principals
John A. Accavallo CPA
Darin L. Offerdahl MBA CPA
Francis H. Michaud Jr. CPA*
Sandra M. Woodbridge CPA*
Dominic L. Cusano MBA CPA
*indicates retired

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 Honorable Mayor,
Members of the Board of Alderman and
Members of the Board of Apportionment and Taxation
City of Derby, Connecticut

2018 APR 3 AM 9:40

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Derby, Connecticut as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Derby, Connecticut's basic financial statements, and have issued our report thereon dated March 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Derby, Connecticut'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Derby, Connecticut's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Derby, Connecticut'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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Derby, Connecticut's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs* to be material weaknesses as identified as items 17-1, 17-7 to 17-9, 17-15.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiencies described in the accompanying *schedule of findings and questioned costs* to be significant deficiencies as items 17-2 to 17-6 and 17-10 to 17-14.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Derby, Connecticut'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 required to be reported under *Government Auditing Standards.*

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 City of Derby, Connecticut'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 City of Derby, Connecticut's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Michaud Accavallo Woodbridge & Cusano, LLC
Ansonia, Connecticut
March 26, 2018

2018 APR 3 AM 9:49

FEDERAL SINGLE AUDIT

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor,
Members of the Board of Alderman and
Members of the Board of Apportionment and Taxation
City of Derby, Connecticut

Report on Compliance for Each Major Federal Program

We have audited City of Derby, Connecticut's compliance with the types of compliance requirements described in the OMB Circular Compliance Supplement that could have a direct and material effect on each of City of Derby, Connecticut's major federal programs for the year ended City of Derby, Connecticut. City of Derby, Connecticut's major federal programs are identified in the summary of auditor's 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 federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Derby, Connecticut's major federal 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*, is-sued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance re-quire 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 City of Derby, 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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of Derby, Connecticut's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Derby, Connecticut 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 federal programs for the year ended June 30, 2017.

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Report on Internal Control Over Compliance

Management of the City of Derby, Connecticut 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 City of Derby, Connecticut's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 City of Derby, Connecticut's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiency.

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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 17-15 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 17-14 to be significant deficiency.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of City of Derby, Connecticut as of and for the year ended June 30, 2017, and have issued our report thereon dated March 26, 2018, 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 federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Michaud Accavallo Woodbridge & Cusano, LLC
Ansonia, Connecticut
March 26, 2018

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CITY OF DERBY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Federal Expenditures
Department of Education:				
Passed through the Connecticut Department of Education:				
Education Consolidation	84.010	20679-2017-82070	$ -	$ 397,867
Education Consolidation	84.010	20679-2016-82070	-	71,109
		Title I, Part A Cluster	-	468,976
IDEA Sliver-Part B-Individuals with Disabilities	84.027	20977-2017-82032	-	329,652
IDEA Sliver-Part B-Individuals with Disabilities	84.027	20977-2016-82032	-	18,723
IDEA Part B-Preschool Grants Program	84.173	20983-2017-82032	-	1,815
		Special Education Cluster	-	350,190
Carl D. Perkins Vocational and Applied Technology	84.048	20742-2017-84010	-	20,066
Title II-Part A Teachers and	84.367	20858-2017-84131	-	58,127
Title II-Part A Teachers and	84.367	20858-2016-84131	-	3,672
			-	61,799
Smart Start		12060-OEC64845-35586	-	128,355
Preschool development grant	84.419A	12060-SDE64370-20983	-	518,764
	Total Department of Education		-	1,548,150
Department of Justice				
Passed through the Connecticut Office of Policy & Management:				
JJ Formula Grant 2003	16.540	12060-OPM20350-21676	-	7,956
Department of Homeland Security				
Asset Forfiture	97.067	12060-DPS-32155-35142	-	6,968
Department of Housing and Urban Development:				
Small Cities Program	14.251	12060-ECD46350-20730	-	73,213
Department of Transportation				
Passed through the Connecticut Department of Transportation:				
DOT NHTSA MAP 21	20.205	12062-DOT57513-22600	-	11,250
Department of Agriculture:				
Passed through the Connecticut Department of Education:				
National School Lunch Program	10.555	12060-SDE64370-20560	-	427,246
School Breakfast	10.553	12060-SDE64370-20508	-	130,779
Summer Food Program	10.555	12060-SDE64370-20540	-	8,700
Summer Food Program	10.555	12060-SDE64370-20548	-	894
CN School Food Equipment	10.579	12060-SDE64370-82079	-	16,715
		Child Nutrition Cluster	-	584,334
Passed through the Connecticut Department of Administrative Services:				
Food distribution program - DAS Commodities	10.550		-	16,215
	Total Department of Agriculture		-	600,549
	TOTAL FEDERAL FINANCIAL AWARD EXPENDITURES		$ -	$ 2,248,086

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The accompanying notes are an integral part of this schedule.

CITY OF DERBY, CONNECTICUT
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Derby, Connecticut, under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of the City of Derby, Connecticut, it is not intended to, and does not, present the financial position, changes in fund balance, changes in net position or cash flows of the City of Derby, 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3- NONCASH AWARDS

The City received and expended $16,215 of USDA donated commodities under the National School Lunch Program.

NOTE 4- INDIRECT COST RECOVERY

City of Derby, Connecticut, did not recover its indirect costs using the 10% de minimis indirect cost rate provided under Section 200.414 of the Uniform Guidance.

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CITY OF DERBY, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

SUMMARY STATEMENT

I. SUMMARY OF AUDITORS' RESULTS

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Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? X Yes ____ No
- Significant Deficiencies identified that are not considered to be material weaknesses? X Yes ____ None reported

Noncompliance material to financial statements noted? ____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes ____ No
- Significant Deficiencies identified that are not considered to be material weakness(es)? X Yes ____ None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? X Yes ____ No

Identification of major programs:

Federal Grantor and Program	Federal CFDA Number	Expenditure
Department of Agriculture	10.555 and 10.553	600,549
Preschool development grant	84.419A	518,764
Title I	84.010	468,976
		$ 1,588,289

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee? ____ Yes X No

II. FINANCIAL STATEMENT FINDINGS

Our report on internal control over financial reporting indicated the following significant deficiencies:

Significant deficiencies repeated from the prior years are marked with an asterisk.

*17-1 Double-Entry Accounting System

Finding: The City does not use double-entry accounting for all funds.

Criteria: The use of a double-entry accounting software system, including the preparation of a balanced general ledger would improve the City's ability to detect accounting errors, provide the basis for monthly account and ledger reconciliations, and facilitate financial reporting for all Special Revenue Funds, Fiduciary Funds and its long-term debt and fixed assets.

Condition: The City does not maintain a double-entry accounting system or process a general ledger utilizing an accounting software system for all Special Revenue Funds, Fiduciary Funds and its long-term debt and fixed assets.

Cause: The financial activity is maintained annually on ledger sheets for most of these funds and for others the only sources of documentation are canceled checks and bank statements

Effect: The City does not have the ability to detect accounting errors, provide the basis for monthly account and ledger reconciliations, and prepare meaningful financial reports.

Recommendation: We recommend that the City adopt a general ledger accounting software system for all funds and activities, including federal and state financial assistance funds. The use of a double-entry accounting software system, including the preparation of a balanced general ledger would improve the City's ability to detect accounting errors, provide the basis for monthly account and ledger reconciliations, and facilitate financial reporting. The Chart of Accounts, developed for the General Fund, should be utilized for the other funds of the City to ensure consistency with account names and numbers and to develop an internal reporting package.

*17-2 Encumbrance System

Finding: The City departments are not fully utilizing the encumbrance system.

Criteria: The City's formal purchase order encumbrance system should be monitored to control its appropriation expenditures.

Condition: The City has a formal purchase order encumbrance system in place to monitor and control its appropriation expenditures. However, it appears that not all departments are fully utilizing the encumbrance system, and in some cases, purchase orders are dated subsequent to the invoice and check date.

Cause: Lack of monitoring of the purchase order system.

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Effect: Purchase orders are not used on a timely basis and encumbrances are not placed on appropriation accounts.

Recommendation: For a fully effective purchase order system, all purchase orders should be prepared and approved prior to the actual date of ordering the goods or services. When this process is being utilized, appropriation expenditures, which may be over expended, will be flagged prior to any over expenditure.

*17-3 Special Assessments/Collection Efforts

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Finding: Special Assessments are not actively collected.

Criteria: Special assessments for sewer and water are past due and there should be active collection in effect to reduce the amount of outstanding assessments.

Condition: The special assessments for sewer and water are past due and there are no active collection activities in effect to reduce the amount of outstanding assessments. In some cases, there is no information in the tax collector's office that states that the sewer and water hookup was made on certain properties.

Cause: Lack of formal collection activity.

Effect: Special assessments for sewer and water are not currently being collected.

Recommendation: We recommend that the City authorize legal counsel to investigate ways to enforce the collection of these past due assessments or obtain authorization for the City to write these assessments off as uncollectible.

*17-4 Interfund Transfers

Finding: Interfund balances are not repaid timely.

Criteria: Interfund transfers had been made by the City primarily between projects in the Capital Projects funds and Enterprise Funds should be repaid on a timely basis.

Condition: Interfund transfers have been made by the City primarily between projects in the Capital Projects funds and Enterprise Funds. In some cases, the transfers were not repaid when the funds were available and interfund balances are outstanding at the balance sheet date.

Cause: No timely repayment procedures have been established.

Effect: Interfund transfers are outstanding for extended periods of time.

Recommendation: We recommend that all interfund transfers be repaid as soon as the funds become available and transfers be properly authorized by the appropriate board before being made.

*17-5 Compensated Absences-City

Finding: There is no formal reconciliation of compensated absences.

Criteria: The City should established a policy of reconciling, on a regular basis or at year end, the departmental employees days for vacation, sick or personal leave to the payroll records.

Condition: Individual departments currently maintain compensated absence records for their departmental employees entitled to compensated absences as dictated by various union bargaining agreements

Cause: Individual departments currently maintain compensated absence records.

Effect: Lack of consistency of reporting compensated absences.

Recommendation: We recommend that the City establish a procedure for maintaining centralized records related to available used and unused vacation, sick and personal leave days to properly evaluate the liability for compensated absences. This process should include a summary of the bargaining agreement provisions related to the various employee categorizes to be used by the individuals who are summarizing the compensated absence data. This centralized record should be related to the employee history files as generated from the payroll system and should be reconciled to departmental records quarterly or semi-annually.

*17-6 Parking Authority

Finding: Parking ticket revenues are not recorded on an accrual basis.

Criteria: The revenue from the parking tickets should be recorded on the general ledger when they are issued (accrual basis).

Condition: While the parking ticket system put in place in January of 1999 on a computerized parking ticket system appears to be working properly, the revenue from the parking tickets is not being recorded on the general ledger until the tickets are paid (cash basis) instead of when they are issued (accrual basis). Parking tickets deemed uncollectible are not being written off nor is there a formal procedure for the acting director to authorize such write-offs, although in some cases, the acting director alone is authorizing corrections and write-offs.

Cause: Lack of understanding by the bookkeeper.

Effect: Untimely recording of revenues from parking tickets.

Recommendation: We recommend that the City of Derby consider assigning additional personnel, independent of the accounting function to duties such as receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks, to provide the necessary checks and balances of the internal control

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system. Consideration should also be given to utilizing the cash receipts procedure of the General Fund of the City of Derby to compensate for the lack of personnel and segregation of duties in this Division. We also recommend that all checks be issued to an individual or a company as opposed to cash as the payee and that for all subcontractors paid in excess of $600, that the appropriate 1099s be filed with the Internal Revenue Service.

*17-7 Bank Reconciliations and Approval of Bank Reconciliations

Finding: Bank reconciliations were not formally prepared during the year for general fund checking accounts.

Criteria: The Finance Department should be preparing the bank reconciliations and the Finance Director should formally approve the bank reconciliations on all City bank accounts.

Cause: Lack of formal procedures.

Effect: Possible material errors could occur and not be detected timely.

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Recommendation: We recommend that all bank reconciliations be prepared by the Finance department within a reasonable period of time after the month end. These reconciliations should then be reviewed by the comptroller for accuracy and completeness.

*17-8 Availability of financial information

Finding: During the audit process, information from various departments related to numerous audit schedules and related information was unavailable in a timely manner. The City's audit for the year ended June 30, 2017 did not start until November 2017. In addition, some schedules and required information were not available for audit until March 2018.

Criteria: Information related to financial statements should be presented at the close of the fiscal year or at a reasonable time thereafter.

Cause: Lack of year-end closing procedures.

Effect: The timely availability of information related to the financial statements has delayed the completion of the audited financial statements and other submissions that rely upon the audited financial statements.

Recommendation: The preparation of information relative to the financial statements in accordance with the City of Derby, Connecticut's reporting requirements should be provided in a timely manner. Schedules, reports and other financial information related to the City's financial condition as a whole should be maintained monthly throughout the year, forwarded to the Finance Department when that information becomes available and reconciled to the books and records of the City. A review of the financial statements should be done by accounting personnel to determine that all schedules and records are provided timely.

*17-9 WPCA Purchase Order Approval Process

Finding: The bookkeeper performed recordkeeping, custodial and approval functions.

Criteria: The WPCA should have adequate segregation of duties and responsibilities in order to assure the safeguarding of assets and the proper preparation of financial statements.

Cause: The WPCA (Agency) did not have adequate segregation of duties and responsibilities in order to assure the safeguarding of assets and the proper preparation of financial statements. Certain functions, such as receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks, to provide the necessary checks and balances of the Agency's internal control, are performed by the same individual. This lack of segregation of duties results in inadequate financial control over the operation of the Agency.

Effect: Lack of segregation of duties may lead to errors, or improprieties could occur and go undetected.

Recommendation: We recommend that the WPCA consider assigning additional personnel, independent of the accounting function, to duties such as, receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks to provide the necessary checks and balances of the Agency's internal control. Consideration should also be given to utilizing the cash receipts procedure and the purchase order and cash disbursement process of the WPCA to compensate for the lack of personnel and segregation of duties in this Agency.

*17-10 Revenues Classification

Finding: Revenues were not properly recorded in their respective general ledger accounts.

Criteria: Revenues should be classified in their budgeted general ledger accounts.

Cause: There is no review of the revenue accounts done on a regular basis.

Effect: Audit adjustments of $294,241 were proposed to reclassify grant revenues.

Recommendation: We recommend a review of the miscellaneous and deferred revenue accounts prior to internal and external reporting of financial information.

*17-11 Cash Account Activity- General Fund Operating, Board of Education and Self Insurance Accounts

Finding: Various cash accounts had activity that was found not to be recorded or recorded in net amounts.

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Criteria: All cash activity should be recorded in the City's general ledger.

Cause: Lack of policies and procedures.

Effect: Cash accounts were contained significant errors that were not corrected by the Finance Department timely.

Recommendation: We recommend that all cash transactions be reflected in the general ledger and that transactions are reported at their gross amounts. In addition, accounts that have separate bank statements have separate general ledger accounts. All cash accounts should be reconciled monthly and reviewed by the comptroller.

*17-12 Accounts Receivable Cut-off

Finding: Accounts Receivable were not recorded at year end.

Criteria: Revenues should be recognized in the accounting period in which they become available and measurable.

Cause: No review process of grants receivable at year end and improper coding of revenues during the year.

Effect: $92,581, of accounts receivable and $26,623 in grants receivable in the general fund were not properly recorded at June 30, 2017.

Recommendation: We recommend that revenues be recognized in the accounting period in which they become available and measurable.

*17-13 Accounts Payable Cut-off

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Finding: The City's accounts payable were not properly recorded at year end.

Criteria: Expenditures should be accrued when incurred in accordance with accounting principles generally accepted in the United States of America.

Cause: Management oversight.

Effect: Expenditures of $586,383 in the general fund were incurred as of June 30, 2017 and were not properly recorded.

*17-14 Federal and State Single Audit Schedules

Finding: The Finance Department did not prepare a schedule of expenditures of federal awards and state financial assistance for the year ended June 30, 2017. These schedules are derived from federal and state grant awards received by the General Government and the Board of

Education of the City. The Board of Education grant awards primarily are passed through the State Department of Education, while the City receives their grants primarily through the State Department of Housing and Urban Development, the State Department of Health and Human Resources, the State Department of Agriculture and the Office of Policy and Management. The preparation of these schedules of expenditures has, in the past, been made by the auditors, including decision making concerning the federal CFDA number, the pass-through entity number and the amount of federal and state expenditures incurred by the City for the fiscal year. The auditor then reports on the Schedules of Expenditures of Federal and State Financial Assistance and renders his opinion with respect to the compliance with laws, regulations, contracts and grants and with the City's internal control over compliance with requirements of the laws, regulations, contracts and grants.

Criteria: The schedules of federal awards and state financial assistance are required to be prepared by the City.

Cause: Lack of a staff member assigned to identify and obtain grant revenue and prepare the appropriate federal and state financial schedules.

Effect: The auditor is preparing these schedules and auditing them.

Recommendation: We recommend that the Finance Department and/or the Board of Education annually prepare the Schedule of Expenditures of Federal Awards and State Financial Assistance to be presented to the auditor for audit. The auditor can then render an opinion with respect to compliance with and internal control over compliance with laws, regulations, contracts and grants. This will provide the proper segregation of responsibilities over the preparation of the schedules and the rendering of an opinion of these schedules.

*17-15 Community Development Agency

Finding: The bookkeeper performs recordkeeping, custodial and approval functions.

Criteria: The Community Development Agency should have adequate segregation of duties and responsibilities in order to assure the safeguarding of assets and the proper preparation of financial statements.

Cause: The Community Development Agency (Agency) does not have adequate segregation of duties and responsibilities in order to assure the safeguarding of assets and the proper preparation of financial statements. Certain functions, such as receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks, to provide the necessary checks and balances of the Agency's internal control, are performed by the same individual. This lack of segregation of duties results in inadequate financial control over the operation of the Agency. Additionally, certain administrative expenses (wages, payroll taxes etc.) and the corresponding appropriation (revenue), paid by the City of Derby's General Fund, are not being timely recorded on the books of the Agency.

Effect: Lack of segregation of duties may lead to errors, or improprieties could occur and go undetected.

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Recommendation: We recommend that the City consider assigning additional personnel, independent of the accounting function, to duties such as, receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks to provide the necessary checks and balances of the Agency's internal control. Consideration should also be given to utilizing the cash receipts procedure and the purchase order and cash disbursement process of the General Fund of the City of Derby to compensate for the lack of personnel and segregation of duties in this Agency. Additionally, procedures should be established to timely allocate and record certain administrative expenses on the books and records of the Agency to specific funds received for Community Development and various grant purposes.

* indicates that these findings are repeated from the previous year.

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III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Findings and questioned costs relating to federal financial assistance programs are as follows:

*17-14 Federal and State Single Audit Schedules

Finding: The Finance Department did not prepare a schedule of expenditures of federal awards and state financial assistance for the year ended June 30, 2017. These schedules are derived from federal and state grant awards received by the General Government and the Board of Education of the City. The Board of Education grant awards primarily are passed through the State Department of Education, while the City receives their grants primarily through the State Department of Housing and Urban Development, the State Department of Health and Human Resources, the State Department of Agriculture and the Office of Policy and Management. The preparation of these schedules of expenditures has, in the past, been made by the auditors, including decision making concerning the federal CFDA number, the pass-through entity number and the amount of federal and state expenditures incurred by the City for the fiscal year. The auditor then reports on the Schedules of Expenditures of Federal and State Financial Assistance and renders his opinion with respect to the compliance with laws, regulations, contracts and grants and with the City's internal control over compliance with requirements of the laws, regulations, contracts and grants.

Criteria: The schedules of federal awards and state financial assistance are required to be prepared by the City.

Cause: Lack of a staff member assigned to identify and obtain grant revenue and prepare the appropriate federal and state financial schedules.

Effect: The auditor is preparing these schedules and auditing them.

Recommendation: We recommend that the Finance Department and/or the Board of Education annually prepare the Schedule of Expenditures of Federal Awards and State Financial Assistance to be presented to the auditor for audit. The auditor can then render an opinion with respect to compliance with and internal control over compliance with laws, regulations, contracts and grants. This will provide the proper segregation of responsibilities over the preparation of the schedules and the rendering of an opinion of these schedules.

*17-15 Community Development Agency

Finding: The bookkeeper performs recordkeeping, custodial and approval functions.

Criteria: The Community Development Agency should have adequate segregation of duties and responsibilities in order to assure the safeguarding of assets and the proper preparation of financial statements.

Cause: The Community Development Agency (Agency) does not have adequate segregation of duties and responsibilities in order to assure the safeguarding of assets and the proper

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preparation of financial statements. Certain functions, such as receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks, to provide the necessary checks and balances of the Agency's internal control, are performed by the same individual. This lack of segregation of duties results in inadequate financial control over the operation of the Agency. Additionally, certain administrative expenses (wages, payroll taxes etc.) and the corresponding appropriation (revenue), paid by the City of Derby's General Fund, are not being timely recorded on the books of the Agency.

Effect: Lack of segregation of duties may lead to errors, or improprieties could occur and go undetected.

Recommendation: We recommend that the City consider assigning additional personnel, independent of the accounting function, to duties such as, receipt and listing of checks, preparation and review of bank reconciliations, approval of purchase orders and invoices and signing and distribution of checks to provide the necessary checks and balances of the Agency's internal control. Consideration should also be given to utilizing the cash receipts procedure and the purchase order and cash disbursement process of the General Fund of the City of Derby to compensate for the lack of personnel and segregation of duties in this Agency. Additionally, procedures should be established to timely allocate and record certain administrative expenses on the books and records of the Agency to specific funds received for Community Development and various grant purposes.

* indicates that these findings are repeated from the previous year.

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CITY OF DERBY, CONNECTICUT
DISPOSITION OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

*16-1 Double-Entry Accounting System

Finding: The City does not use double-entry accounting for all funds.

Disposition: This finding is repeated in the current year's findings as 17-1.

*16-2 Encumbrance System

Finding: The City departments are not fully utilizing the encumbrance system.

Disposition: This finding is repeated in the current year's findings as 17-2.

*16-3 Special Assessments/Collection Efforts

Finding: Special Assessments are not actively collected.

Disposition: This finding is repeated in the current year's findings as 17-3.

*16-4 Interfund Transfers

Finding: Interfund balances are not repaid timely.

Disposition: This finding is repeated in the current year's findings as 17-4.

*16-5 Compensated Absences

Finding: There is no formal reconciliation of compensated absences.

Disposition: This finding is repeated in the current year's findings as 17-5.

*16-6 Parking Authority

Finding: Parking ticket revenues are not recorded on an accrual basis.

Disposition: This finding is repeated in the current year's findings as 17-6.

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CITY OF DERBY, CONNECTICUT
DISPOSITION OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

*16-7 Bank Reconciliation Approval

Finding: Bank reconciliations are not formally approved after the reconciliation is performed.

Disposition: This finding is repeated in the current year's findings as 17-7.

*16-8 Availability of financial information

Finding: During the audit process, information related to numerous audit areas was unavailable in a timely manner.

Disposition: This finding is repeated in the current year's findings as 17-8.

*16-9 Parking Authority

Finding: Competitive bidding requirements were not followed. During testing it was observed that multiple invoices were received for similar work performed from a singular vendor. The invoices individually were less than $5,000 but collectively totaled more than $5,000 and were for the same type of work within a close time period.

Disposition: This finding is was cleared.

*16-10 Revenues Classification

Finding: Revenues were not properly recorded in their respective general ledger accounts.

Disposition: This finding is repeated in the current year's findings as 17-10.

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*16-11 Cash Account Activity- Board of Education and Self Insurance Accounts

Finding: Various cash accounts had activity that was found not to be recorded or recorded in net amounts.

Disposition: This finding is repeated in the current year's findings as 17-11.

*16-12 Accounts Receivable Cut-off

Finding: Accounts and Grants Receivable were not recorded at year end.

Disposition: This finding is repeated in the current year's findings as 17-12.

CITY OF DERBY, CONNECTICUT
DISPOSITION OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

*16-13 Accounts Payable Cut-off

Finding: The City's accounts payable were not properly recorded at year end.

Disposition: This finding is repeated in the current year's findings as 17-13.

*16-14 Federal and State Single Audit Schedules

Finding: The Finance Department did not prepare a schedule of expenditures of federal awards and state financial assistance for the year ended June 30, 2017. These schedules are derived from federal and state grant awards received by the General Government and the Board of Education of the City. The Board of Education grant awards primarily are passed through the State Department of Education, while the City receives their grants primarily through the State Department of Housing and Urban Development, the State Department of Health and Human Resources, the State Department of Agriculture and the Office of Policy and Management. The preparation of these schedules of expenditures has, in the past, been made by the auditors, including decision making concerning the federal CFDA number, the pass-through entity number and the amount of federal and state expenditures incurred by the City for the fiscal year. The auditor then reports on the Schedules of Expenditures of Federal and State Financial Assistance and renders his opinion with respect to the compliance with laws, regulations, contracts and grants and with the City's internal control over compliance with requirements of the laws, regulations, contracts and grants.

Disposition: This finding is repeated in the current year's findings as 17-14.

*16-15 Community Development Agency

Finding: The bookkeeper performs recordkeeping, custodial and approval functions.

Disposition: This finding is repeated in the current year's findings as 17-15.

* indicates that these findings are repeated from the previous year.

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STATE SINGLE AUDIT

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MAWC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Guiding Successful People

Ansonia
158 Main Street, Suite 301
Ansonia, Connecticut 06401
P: 203-732-2311

Killingworth
166 Route 81
Killingworth, Connecticut 06419
P: 860-663-0110

New Haven
900 Chapel Street, Suite 620
New Haven, Connecticut 06510
P: 203-773-0384

Stratford
2296 Main Street
Stratford, Connecticut 06615
P: 203-377-8473

Principals
John A. Accavallo CPA
Darin L. Offerdahl MBA CPA
Francis H. Michaud Jr. CPA*
Sandra M. Woodbridge CPA*
Dominic L. Cusano MBA CPA
*indicates retired

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; REPORT ON THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE REQUIRED BY THE STATE SINGLE AUDIT ACT

To the Honorable Mayor,
Members of the Board of Alderman and
Members of the Board of Apportionment and Taxation
City of Derby, Connecticut

Report on Compliance for Each Major State Program

We have audited City of Derby, 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 each of City of Derby, Connecticut's major state programs for the year ended June 30, 2017. City of Derby, Connecticut'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 City of Derby, Connecticut'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 City of Derby, 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 on compliance for each major state program. However, our audit does not provide a legal determination of City of Derby, Connecticut's compliance.

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Opinion on Each Major State Program

In our opinion, City of Derby, Connecticut, 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, 2017.

Report on Internal Control over Compliance

Management of City of Derby, Connecticut, 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 City of Derby, Connecticut'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 City of Derby, Connecticut's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiency.
□

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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 17-15 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 17-14 to be significant deficiency.

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 State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of City of Derby, Connecticut, as of and for the year ended June 30, 2017 and have issued our report thereon dated March 26, 2018, 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.

Michaud Accavallo Woodbridge & Cusano, LLC
Ansonia, Connecticut
March 26, 2018

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CITY OF DERBY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2017

State Grantor/Pass-Through Grantor/Program Title	State Grant Program Identification Number	Pass-Through to Subrecipients	Expenditures
Department of Education:			
Alliance Grant	11000-SDE64370-17041	$ -	$ 1,027,157
Adult Education	11000-SDE64370-17030	-	127,303
Priority School Districts	11000-SDE64370-17043	-	968,165
Priority School Districts	11000-SDE64370-17043	-	20,367
Priority School Districts	11000-SDE64370-17043	-	41,092
Priority School Districts	11000-SDE64370-17043	-	29,477
Healthy Foods	11000-SDE64370-16212	-	15,115
Youth Service Bureau	11000-SDE64370-16201	-	14,000
Youth Service Bureau	11000-SDE64370-17052	-	5,000
Breakfast Program	11000-SDE64370-17046	-	11,595
Child Nutrition State Match	11000-SDE64370-16211	-	7,456
Health and Welfare - Private Schools	11000-SDE64370-17034	-	7,314
		-	2,274,041
Office of Early Childhood:			
School Readiness	11000-OEC64845-17101	-	140,267
Smart Start	12052-OEC64845-43626	-	150,000
Competative School	11000-OEC64845-17097	-	3,881
		-	294,148
Department of Administrative Services:			
Alliance Dis Gen Improvements	12052-DAS27635-43651	-	1,225,000
Office of Policy and Management:			
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	-	85,980
Reimburse Prop Tax-Disability Exemption	11000-OPM20600-17011	-	3,244
Property Tax Relief for Veterans	11000-OPM20600-17024	-	13,497
PILOT: Private Colleges and General Hospitals	11000-OPM20600-17006	-	833,361
Nutmeg Network Grant	12060-OPM20870-35525	-	24,800
Municipal Grants-in-Aid	12052-OPM20600-43587	-	14,728
PILOT: State owned property	11000-OPM20600-17004	-	663
		-	976,273
Department of Transportation:			
Fees and Permits	12062-DOT57124-22108	-	13,811
Fix it First	13033-DOT57124-43122	-	223
FAD-Temporary Holding Account	34003-DOT57331-42350	-	3,144
Town Aid Road Grants muni	12052-DOT57131-43455	-	265,209
		-	282,387

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The accompanying note is an integral part of this schedule.

CITY OF DERBY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2017

State Grantor/Pass-Through Grantor/Program Title	State Grant Program Identification Number	Pass-Through to Subrecipients	Expenditures
Department of Environmental Protection:			
Other Expenses	11000-DEP44910-10020	$ -	$ 5,367
Fees and Permits	11000-DEP43970-12501	-	1,466
Non-Budgeted Operating Appropriation	11000-DEP43720-40001	-	54,806
Nitrogen credits	21016-OTT14230-42407	-	5,238
		-	66,877
Department of Economic and Community Development:			
Urban Act Grant	13019-ECD46210-41240	-	349,050
Department of Justice:			
Other expenses	11000-JUD95405-10020	-	5,367
Non-Budgeted Operating Appropriation	34001-JUD95162-40001	-	16,304
		-	21,671
Connecticut State Library:			
Fiber Grant	12052-CLS66011-43649	-	16,360
Connecticard	11000-CSL66051-17010	-	3,050
Historic Document Preservation Grant	11000-CLS66094-35150	-	4,000
State Aid Connecticut	11000-CSL66051-17003	-	-
		-	23,410
TOTAL STATE FINANCIAL ASSISTANCE BEFORE EXEMPT PROGRAMS		-	5,512,857
EXEMPT PROGRAMS			
Department of Education:			
Education Cost Sharing	11000-SDE64370-17041	-	6,893,301
Special Education-Excess Costs	11000-SDE64370-17047	-	341,966
		-	7,235,267
Office of Policy and Management:			
Municipal Revenue Sharing	12002-OPM20600-17102	-	462,718
Municipal Revenue Sharing	12002-OPM20600-17102	-	132,817
Mashantucket Pequot	12009-OPM20600-17005	-	243,222
		-	838,757
	TOTAL EXEMPT PROGRAMS	-	8,074,024
	TOTAL STATE FINANCIAL ASSISTANCE	$ -	$ 13,586,881

The accompanying notes are an integral part of this schedule.

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CITY OF DERBY, CONNECTICUT
NOTES TO THE SCHEDULE OF EXPENDITURES
OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2017

Various departments and agencies of the State Government have provided financial assistance to the City of Derby, Connecticut through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. This financial assistance funds several programs including housing, education, health and human services and general government activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. 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 City's annual audit report are prepared on the modified accrual basis. The following is a summary of such basis:

- Revenues are recognized when earned. Certain grants are recognized based on grant award since they are considered entitlement grants; other grants, which are dependent upon expenditure factors for determining eligibility, recognize grant revenue to the extent of expenditures.

- Expenditures are recorded on the accrual basis; i.e. recognized when incurred.

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 (Section 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.

2. LOAN PROGRAM

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 loan program activity for the year ended June 30, 2017:

Department of Environmental Protection:

Clean Water Funds 21014-OTT14230-4001:

Issue Date	Interest Rate	Original Amount	Balance July 1, 2016	Issued	Retired	Balance June 30, 2017
367CFeb 2001	2%	$ 2,347,440	$ 430,364	$ -	$ 117,372	$ 312,992

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CITY OF DERBY, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued — Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? X Yes ____ No
- Significant deficiencies identified? X Yes ____ No

Noncompliance material to financial statements noted? ____ Yes X No

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? X Yes ____ No
- Significant deficiencies identified? X Yes ____ No

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

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? X Yes ____ No

- The following schedule reflects the major programs included in the audit:

State Grantor And Program	Identification Number	Expenditures
Office of the Policy and Management:		
PILOT: Private Colleges and General Hospitals	11000-OPM20600-17006	$ 833,361
Department of Education:		
Priority School Districts	11000-SDE64370-17043	1,059,101
Alliance Grant	11000-SDE64370-17041	1,027,157
Department of Administrative Services:		
Alliance Dis Gen Improvements	12052-DAS27635-43651	1,225,000
Department of Economic and Community Development:		
Urban Act Grant	13019-ECD46210-41240	349,050
Department of Transportation:		
Town Aid Road Grants muni	12052-DOT57131-43455	265,209
	Total	$ 4,758,878

Dollar threshold used to distinguish between Type A and Type B programs: $200,000

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II. SUMMARY OF FINDINGS RELATED TO FINANCIAL STATEMENTS REQUIRED UNDER GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

- We issued reports, dated March 26, 2018, on compliance and on internal control over financial reporting based on an 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 significant deficiencies as items 17-1 to 17-15 (page 12 to 19) of which we consider items 17-1, 17-7 to 17-9 and 17-15 to be a material weaknesses.

III. FINDINGS AND QUESTIONED COSTS FOR STATE FINANCIAL ASSISTANCE

Findings or questioned costs relating to State financial assistance programs are as follows: Items 17-14 and and17-15 (page 17 to 19) of which we consider item 17-15 to be a material weakness.

Disposition of Prior Year's Significant Deficiencies:

The dispositions of prior year's significant deficiencies are reported as items 16-1 to 16-15 on pages 22 to 24.

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