

TOWN OF HEBRON, CONNECTICUT

STATE SINGLE AUDIT REPORTS

JUNE 30, 2014

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INTERNAL CONTROL AND COMPLIANCE REPORT

**INDEPENDENT AUDITOR'S 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 Hebron, Connecticut

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of the Town of Hebron, Connecticut (the "Town") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 29, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that were reported to management of the Town in a separate letter dated December 29, 2014.

Town's Response to the Finding

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

Purpose of this Report

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

Mahoney Sabol + Company, LLP

Glastonbury, Connecticut
December 29, 2014

STATE SINGLE AUDIT SECTION

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM,
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
CONNECTICUT STATE SINGLE AUDIT ACT,
AND ON THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**

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

Report on Compliance for Each Major Program

We have audited the compliance by the Town of Hebron, Connecticut (the "Town"), with the types of compliance requirements described in the State of Connecticut, Office of Policy and Management *Compliance Supplement to the State Single Audit Act* that could have a direct and material effect on each of the Town's major state programs for the year ended June 30, 2014. The Town's major state programs are identified in the summary of auditor's results section of the accompanying schedule of state 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Connecticut State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the Connecticut State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major State Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Connecticut State Single Audit Act and which is described in the accompanying schedule of state findings and questioned costs as item 2014-2. Our opinion on each major state program is not modified with respect to this matter.

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Connecticut State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of state findings and questioned costs as item 2014-2, that we consider to be a significant deficiency.

Town's Response to the Findings

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

Report on 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, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements. We issued our report thereon, dated December 29, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the Connecticut State Single Audit Act and is not a required part of the basic 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 basic 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 basic financial statements or to the basic 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 basic financial statements as a whole.

Purpose of this Report

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

Mahoney Sabel + Company, LLP

Glastonbury, Connecticut
December 29, 2014

TOWN OF HEBRON, CONNECTICUT
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
 FOR THE YEAR ENDED JUNE 30, 2014

| State Grantor; Pass-Through Grantor; Program Title | State Grant Program Core - CT Number | Expenditures |
|--|---|----------------|
| NONEXEMPT PROGRAMS: | | |
| DEPARTMENT OF TRANSPORTATION | | |
| Direct: | | |
| Town Aid Road Grants | 13033-DOT57131-43459 | \$ 242,181 |
| Bus Operations | 12001-DOT57131-12175 | 36,252 |
| Total Department of Transportation | | <u>278,433</u> |
| DEPARTMENT OF EDUCATION | | |
| Direct: | | |
| School Readiness and Childcare in Competitive Grant Municipalities | 11000-SDE64370-12113 | 107,000 |
| Family Resource Centers | 11000-SDE64370-16110 | 104,500 |
| Youth Services Bureau | 11000-SDE64370-17052 | 37,499 |
| Youth Services Enhancement | 11000-SDE64370-16201 | 6,172 |
| Health Food Initiative | 11000-SDE64370-16212 | 5,833 |
| Child Nutrition Program | 11000-SDE64370-16211 | 2,850 |
| Total Department of Education | | <u>263,854</u> |
| DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION | | |
| Direct: | | |
| Open Space and Watershed Land Acquisition | 12052-DEP43153-43506 | 165,000 |
| OFFICE OF POLICY AND MANAGEMENT | | |
| Direct: | | |
| Property Tax Relief for Elderly and Totally Disabled Homeowners | 11000-OPM20600-17018 | 28,302 |
| Small Town Economic Assistance Program | 12052-OPM20870-40530 | 25,280 |
| Payment in Lieu of Taxes on State Owned Property | 11000-OPM20600-17004 | 13,991 |
| Property Tax Relief for Veterans | 11000-OPM20600-17024 | 3,848 |
| Housing Zone Program | 12060-OPM20500-90526 | 3,500 |
| Municipal Grants In Aid | 12052-OPM20600-43587 | 2,084 |
| Property Tax Relief for the Totally Disabled | 11000-OPM20600-17011 | 795 |
| Total Office of Policy and Management | | <u>77,800</u> |
| CONNECTICUT STATE LIBRARY | | |
| Direct: | | |
| Historic Document Preservation Grant | 12060-CSL66094-35150 | 4,000 |
| DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT | | |
| Direct: | | |
| Small Town Economic Assistance Program | 12052-ECD46555-42411 | 6,069 |
| Total State Financial Assistance Before Exempt Programs | | <u>795,156</u> |

(Continued)

The accompanying note is an integral part of this schedule.

TOWN OF HEBRON, CONNECTICUT
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE (Continued)
 FOR THE YEAR ENDED JUNE 30, 2014

| State Grantor; Pass-Through Grantor; Program Title | State Grant Program Core - CT Number | Expenditures |
|--|---|----------------------------|
| EXEMPT PROGRAMS: | | |
| DEPARTMENT OF EDUCATION | | |
| Direct: | | |
| Education Cost Sharing | 11000-SDE64370-17041 | \$ 6,998,357 |
| Excess Cost - Student Based | 11000-SDE64370-17047 | 55,113 |
| Transportation of School Children | 11000-SDE64370-17027 | 45,523 |
| Total Department of Education | | <u>7,098,993</u> |
| OFFICE OF POLICY AND MANAGEMENT | | |
| Direct: | | |
| Municipal Revenue Sharing | 12060-OPM20600-35458 | 59,730 |
| Mashantucket Pequot Grant | 12009-OPM20600-17005 | 27,206 |
| Municipal Video Competition | 12060-OPM20600-35362 | 189 |
| Total Office of Policy and Management | | <u>87,125</u> |
| Total Exempt Programs | | <u>7,186,118</u> |
| TOTAL STATE FINANCIAL ASSISTANCE | | <u><u>\$ 7,981,274</u></u> |

The accompanying note is an integral part of this schedule.

TOWN OF HEBRON, CONNECTICUT
NOTE TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2014

Various departments and agencies of the State of Connecticut have provided financial assistance to the Town of Hebron, Connecticut (the "Town") through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs of the Town.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America as applicable to governmental organizations. The following is a summary of the more significant policies relating to the aforementioned grant programs.

Basis of Accounting

The accompanying schedule of expenditures of state financial assistance has been prepared on the accrual basis consistent with the preparation of the basic financial statements. Information included in the schedule of expenditures of state financial assistance is presented in accordance with regulations established by the State of Connecticut, Office of Policy and Management.

For cost reimbursement awards, revenues are recognized to the extent of expenditures. Expenditures have been recognized to the extent the related obligation was incurred within the applicable grant period and liquidated within 90 days after the end of the grant period.

For performance based awards, revenues are recognized to the extent of performance achieved during the grant period.

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 financial assistance is not dependent on expenditure activity or the achievement of performance goals and, accordingly, is considered expended in the fiscal year of receipt. These financial assistance program receipts are reflected in the expenditures column of the schedule of expenditures of state financial assistance.

TOWN OF HEBRON, CONNECTICUT
 SCHEDULE OF STATE FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2014

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | | |
|---|-------------------|----------------------------|
| Type of auditor's report issued: | Unmodified | |
| Internal control over financial reporting: | | |
| <input type="radio"/> Material weakness(es) identified? | <u> ✓ </u> Yes | <u> </u> No |
| <input type="radio"/> Significant deficiency(ies) identified? | <u> </u> Yes | <u> ✓ </u> None Reported |
| Noncompliance material to financial statements noted? | <u> </u> Yes | <u> ✓ </u> No |

State Financial Assistance

| | | |
|---|-------------------|-----------------------------|
| Internal control over major programs: | | |
| <input type="radio"/> Material weakness(es) identified? | <u> </u> Yes | <u> ✓ </u> No |
| <input type="radio"/> Significant deficiency(ies) identified? | <u> ✓ </u> Yes | <u> </u> 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 Section 4-236-24 of the Regulations to the State Single Audit Act? | <u> ✓ </u> Yes | <u> </u> No |

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

| State Grantor/ Program | State Grant Program Core-CT Number | Expenditures |
|--|--|--------------|
| Department of Transportation | | |
| Town Aid Road Grants | 13033-DOT57131-43459 | \$ 242,181 |
| Department of Education | | |
| Family Resource Centers | 11000-SDE64370-16110 | 104,500 |
| Department of Energy and Environmental Protection | | |
| Open Space and Watershed Land Acquisition | 12052-DEP43153-43506 | 165,000 |

Dollar threshold used to distinguish between Type A and Type B programs: \$100,000

TOWN OF HEBRON, CONNECTICUT
SCHEDULE OF STATE FINDINGS AND QUESTIONED COSTS *(Continued)*
FOR THE YEAR ENDED JUNE 30, 2014

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding 2014-1 Material Weakness in Internal Control Over Financial Reporting

Criteria

The accounting records and financial statements are the responsibility of management and, accordingly, the Town should have internal control over financial reporting that provides reasonable assurance that the accounting records can be relied upon and used to prepare the basic financial statements and related notes to the basic financial statements, in conformity with accounting principles generally accepted in the United States of America.

Condition

The Town's internal control over financial reporting does not provide reasonable assurance that the basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Specifically, we noted the following conditions in internal control:

- There is no formal monthly, quarterly and annual close out procedure to ensure that accounts are reconciled and properly balanced periodically throughout the year and at year end.
- Various funds within the Capital Projects Fund contain material accounts receivable and accounts payable balances which remained unchanged from the previous fiscal year's audit.
- The Town's pooled cash analysis does not reconcile to the general ledger, both in total and on an individual account basis.
- The Pension funds, are not currently tracked or monitored on the Town's general ledger, resulting in incomplete financial data.
- The Education Grants and Cafeteria Funds, although accounted for under general ledger control, are not being maintained on a modified-accrual basis of accounting.

These weaknesses result in a condition where a significant number of material audit adjustments were required to prepare the Town's financial statements. Thus, the Town's internal control over financial reporting does not provide reasonable assurance that the basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

Questioned Costs

No costs were questioned.

Cause

The material weakness over financial reporting is caused by deficiencies in the monthly and year-end closing processes.

Effect

It is unlikely that the Town would be able to prevent, detect, or correct a potential material misstatement in the basic financial statements. Material audit adjustments were required to be made to the Town's basic financial statements.

TOWN OF HEBRON, CONNECTICUT
SCHEDULE OF STATE FINDINGS AND QUESTIONED COSTS *(Continued)*
FOR THE YEAR ENDED JUNE 30, 2014

SECTION II. FINANCIAL STATEMENT FINDINGS *(Continued)*

Finding 2014-1 Material Weakness in Internal Control Over Financial Reporting *(Continued)*

Auditor's Recommendation

We recommend that the Town develop and implement a comprehensive plan to overhaul its current system of internal control over financial reporting. Specifically, we recommend that the following matters be addressed by both the Town and the Board of Education:

- The development of monthly and yearly closeout procedures to ensure that all accounts are reconciled and properly balanced and recorded. The procedures should contain specific areas to be addressed and should assign specific staff members to those areas.
- The development of a formal reconciliation process between the Town and Board of Education to ensure that all accounts are reconciled and that inter-fund accounts are balanced between the two general ledgers.
- Review of year-end invoices and disbursements to ensure proper cut-off of revenues and expenditures.
- A schedule and approach to reconcile the Town's pooled cash analysis to the general ledger.
- Recording all activity in respective general ledgers using the modified-accrual basis of accounting.

Management Response

The Town intends to take appropriate action in an attempt to remedy this deficiency in the future. During the current year, the previously vacant positions of the Board of Education Business Manager, Board of Education Accountant, and Town Finance Administrator were all filled with highly qualified individuals. Although fiscal year 2014 has been a transition year for both the Town and Board of Education finance departments, based on the current full staffing levels, management does not expect this finding to be repeated.

SECTION III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

**Finding 2014-2 Significant Deficiency in Internal Control Over Major Program Reporting
Noncompliance – Major State Award Program**

Grantor: State of Connecticut Department of Education

Program Name: Family Resource Centers

State Grant Program Core CT Number: 11000-SDE64370-16110

Criteria

The Town's Board of Education should have appropriate internal control over compliance requirements to provide reasonable assurance that required grant reports are complete, accurate, and filed in a timely manner.

Condition

The State of Connecticut Department of Education Statement of Expenditure Report (ED141) for the Family Resource Centers Grant was not submitted by the Board of Education's Business Office.

Questioned Costs

No costs were questioned.

TOWN OF HEBRON, CONNECTICUT
SCHEDULE OF STATE FINDINGS AND QUESTIONED COSTS *(Continued)*
FOR THE YEAR ENDED JUNE 30, 2014

SECTION III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS
(Continued)

**Finding 2014-2 Significant Deficiency in Internal Control Over Major Program Reporting
Noncompliance – Major State Award Program *(Continued)***

Cause

Oversight.

Effect

The required grant report was not filed.

Auditor's Recommendation

We recommend that the Board of Education Business Office develop and implement a financial closing timeline that will ensure timely and accurate reporting of grant information to the State of Connecticut Department of Education.

Management Response

The Board of Education's Business Office plans to implement additional procedures to ensure all grant activity is reported annually to the State of Connecticut Department of Education. The ED141 report has been subsequently adjusted to include the Family Resource Centers Grant activity and has been re-certified with the Department of Education.

SUMMARY SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS

Finding 2013-1 has been replaced by Finding 2014-1.