

CITY OF MIDDLETOWN, CONNECTICUT

FEDERAL SINGLE AUDIT REPORT

JUNE 30, 2010

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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 Honorable Mayor and the Common Council
City of Middletown, Connecticut

Compliance

We have audited the City of Middletown, 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 City of Middletown, Connecticut's major federal programs for the year ended June 30, 2010. The City of Middletown, 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 City of Middletown, Connecticut's management. Our responsibility is to express an opinion on the City of Middletown, 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. 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 City of Middletown, 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 City of Middletown, Connecticut's compliance with those requirements.

As described in item 2010-01 in the accompanying schedule of findings and questioned costs, the City of Middletown, Connecticut, did not comply with requirements regarding the Davis-Bacon Act that are applicable to its Community Development Block Grant Entitlement Cluster. Compliance with such requirements is necessary, in our opinion, for the City of Middletown, Connecticut, to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Middletown, 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, 2010.

Internal Control over Compliance

Management of the City of Middletown, 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 City of Middletown, 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 City of Middletown, 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-01. 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Middletown, Connecticut, as of and for the year ended June 30, 2010 and have issued our report thereon dated December 30, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Middletown, Connecticut's basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The City of Middletown, Connecticut's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Middletown, Connecticut's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Honorable Mayor, the Common Council, the Board of Education, 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.

December 30, 2010

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

<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</i>			
<i>Department of Education:</i>			
Child Nutrition Cluster:			
School Breakfast Program	10.553	12060-SDE64370-20508	\$ 164,010
National School Lunch Program	10.555	12060-SDE64370-20560	<u>813,601</u>
			\$ 977,611
Child Nutrition Discretionary Grants			
Limited Availability	10.579	12060-SDE64370-29013	34,000
Fresh Fruit and Vegetable Program			
	10.582	12060-SDE64370-22051	<u>11,489</u>
Total United States Department of Agriculture			<u>1,023,100</u>
United States Department of Education			
<i>Passed Through the State of Connecticut</i>			
<i>Department of Education:</i>			
Adult Education	84.002	12060-SDE64370-20784	300,000
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	12060-SDE64370-20679	799,429
Title I Grants to Local Educational Agencies, Recovery Act	84.389	12060-SDE64370-29010	<u>382,936</u>
			1,182,365
Special Education Cluster:			
Special Education - Grants to States	84.027	12060-SDE64370-20977	1,299,130
Special Education - Preschool Grants	84.173	12060-SDE64370-20983	40,168
Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391	12060-SDE64370-29011	651,830
Special Education - Preschool Grants (IDEA Preschool), Recovery Act	84.392	12060-SDE64370-29012	<u>24,282</u>
			2,015,410
Career and Technical Education - Basic Grants to States			
	84.048	12060-SDE64370-20742	68,541
Safe and Drug-Free Schools and Communities - National Programs			
	84.184	12060-SDE64370-20873	21,397

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**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

<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>
Even Start - State Educational Agencies	84.213	12060-SDE64370-20682	\$ 106,062
Twenty-First Century Community Learning Centers	84.287	12060-SDE64370-20863	350,801
Education Technology State Grants Cluster:			
Education Technology State Grants	84.318	12060-SDE64370-20826	\$ 3,316
Education Technology State Grants, Recovery Act (Enhancing Education through Technology Program)	84.386	12060-SDE64370-29063	<u>13,341</u>
			16,657
Reading First State Grants	84.357	12060-SDE64370-20854	212,633
English Language Acquisition Grants	84.365	12060-SDE64370-20868	15,543
Improving Teacher Quality State Grants	84.367	12060-SDE64370-20858	283,301
State Fiscal Stabilization Fund Cluster:			
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (Education Stabilization Fund)	84.394	12060-SDE64370-29054	1,531,380
State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	12060-SDE64370-29053	<u>844,333</u>
			<u>2,375,713</u>
 Total United States Department of Education			 <u>6,948,423</u>
 Environmental Protection Agency <i>Direct Program:</i>			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		<u>57,000</u>

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**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

<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 Health and Human Services			
<i>Direct Programs:</i>			
Medical Reserve Corps Small Grant Program	93.008		\$ 5,000
<i>Passed Through the State of Connecticut Department of Public Health:</i>			
Preventive Health and Health Services Block Grant	93.991	12060-DPH48558-21530	7,137
Public Health Emergency Response	93.069	12060-DPH48557-22350	206,818
<i>Passed Through the State of Connecticut Children's Trust Fund:</i>			
Children's Trust Fund Council	93.590	12060-CTF94000-20394	<u>750</u>
Total United States Department of Health and Human Services			<u>219,705</u>
United States Department of Homeland Security			
<i>Direct Programs:</i>			
National Urban Search and Rescue	97.025		20,000
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083		140,942
<i>Passed Through the State of Connecticut Department of Emergency Management and Homeland Security:</i>			
Emergency Management Performance Grants	97.042	12060-EHS99660-21881	9,729
State Homeland Security Program (SHSP)	97.073	12060-EHS99530-21877	<u>795</u>
Total United States Department of Homeland Security			<u>171,466</u>

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**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

<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 Housing and Urban Development			
<i>Direct Programs:</i>			
CDBG-Entitlement Grants Cluster: Community Development Block Grant/Entitlement	14.218		\$ <u>387,201</u>
United States Department of Justice <i>Passed Through the State of Connecticut Office of Policy and Management:</i>			
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	12060-OPM20350-29002	93,521
<i>Passed Through the State of Connecticut Department of Public Safety:</i>			
ARRA Drug Task Force	16.579	12060-DPS32523-29078	<u>2,888</u>
Total United States Department of Justice			<u>96,409</u>
United States Department of Transportation <i>Passed Through the State of Connecticut Department of Transportation:</i>			
Highway Planning and Construction Cluster: Highway Planning and Construction	20.205	12062-DOT57141-22108	<u>518,433</u>
National Endowment for the Art <i>Passed Through the State of Connecticut Commission on Culture and Tourism:</i>			
Promotion of the Arts - Partnership Agreements	45.025	12060-CAT45220-20328	<u>3,906</u>
Total Federal Awards Expended			\$ <u><u>9,425,643</u></u>

**CITY OF MIDDLETOWN, CONNECTICUT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Various agencies of the Federal Government have made financial assistance available to the City of Middletown, Connecticut. These grants fund several programs including housing, education, human services, transportation and general government activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting - The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Middletown, Connecticut, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - NONCASH AWARDS

Donated commodities in the amount of \$33,139 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 Honorable Mayor and the Common Council
City of Middletown, Connecticut

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Middletown, Connecticut, as of and for the year ended June 30, 2010, which collectively comprise the City of Middletown, Connecticut's basic financial statements, and have issued our report thereon dated December 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Middletown, 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 City of Middletown, Connecticut's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Middletown, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Middletown, 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 City of Middletown, Connecticut, in a separate letter dated December 30, 2010.

This report is intended solely for the information and use of management, the Honorable Mayor, the Common Council, the Board of Education, 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.

December 30, 2010

**CITY OF MIDDLETOWN, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

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? _____ yes X 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? X yes _____ none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

 X yes _____ no

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
10.553/10.555	Child Nutrition Cluster
84.010/84.389	Title I, Part A Cluster
84.027/84.173/84.391/84.392	Special Education Cluster
84.287	Twenty First Century Community Learning Centers
84.394/83.397	State Fiscal Stabilization Fund Cluster
14.218	Community Development Block Grant/Entitlement
20.205	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

No matters were reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-01	Davis Bacon
Program	14.218 - Community Development Block Grant / Entitlement
Criteria	OMB Circular A-133 requires grant recipients to maintain documentation that proves they are in compliance with grant requirements.
Condition	The City was not able to provide certified payrolls to allow us to test for compliance with Davis Bacon requirements.
Questioned Costs	None noted.
Context	The City did not have any documentation of the certified payrolls for the Community Development Block Grant / Entitlement grant.
Effect	We were unable to determine whether the City is in compliance with this requirement.
Cause	The City was unaware of the requirement to collect and retain this documentation, prior to the required filing to the State of Connecticut Department of Labor after the project is finalized.
Recommendation	We recommend that the City develop procedures to ensure that certified payrolls are retained and reviewed, and that documentation of this review is also retained.
Management Response and Planned Corrective Action	The City will attempt to collect and review the certified payrolls in the future.