

CITY OF WATERBURY, CONNECTICUT
STATE SINGLE AUDIT REPORT

JUNE 30, 2008

CITY OF WATERBURY, CONNECTICUT

STATE SINGLE AUDIT REPORT

JUNE 30, 2008

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

To the Honorable Mayor and
Board of Aldermen
City of Waterbury, Connecticut

Compliance

We have audited the compliance of the City of Waterbury, Connecticut, with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that are applicable to each of its major state programs for the year ended June 30, 2008. The City of Waterbury, Connecticut's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the City of Waterbury, Connecticut's management. Our responsibility is to express an opinion on the City of Waterbury, Connecticut's compliance based on our audit.

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

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

Internal Control over Compliance

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

requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Waterbury, Connecticut's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of State Financial Assistance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waterbury, Connecticut, as of and for the year ended June 30, 2008 and have issued our report thereon dated December 15, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Waterbury, Connecticut's basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Blum, Shapiro & Company, P.C.

December 15, 2008

CITY OF WATERBURY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2008

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Board of Education and Services for the Blind		
Education Aid Blind/Visually Impaired Children	11000-ESB65020-12060	\$ <u>263,548</u>
Department of Children and Families		
Board and Care for Children - Foster	11000-DCF91110-16135	<u>9,988</u>
State Comptroller		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OSC15910-17004	4,354,658
Payment in Lieu of Taxes (PILOT) on Private Colleges and General Hospitals	11000-OSC15910-17006	8,384,088
Mashantucket Pequot/Mohegan Fund	12009-OSC15910-17005	4,743,337
Boat Grant	12027-OSC15910-40211	<u>14,127</u>
Total State Comptroller		<u>17,496,210</u>
Department of Economic and Community Development		
Tax Abatement Program	11000-ECD46400-17008-038	<u>198,730</u>
Department of Education		
Primary Mental Health	11000-SDE64000-12198	15,000
Computer Assisted Writing Instruction and Testing	11000-SDE64370-12332	64,931
Healthy Food Certification	11000-SDE64000-16072-82010	222,656
Child Nutrition Program - (School Lunch State Match)	11000-SDE64000-16072-82051	100,957
Family Resource Centers	11000-SDE64000-16110	204,800

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CITY OF WATERBURY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE
FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Adult Education	11000-SDE64000-17030	\$ 3,336,426
Health Services	11000-SDE64000-17034	574,602
Bilingual Education	11000-SDE64000-17042	198,053
Priority School Districts	11000-SDE64000-17043-82052	2,657,734
Early Reading Success Grant Program For Priority School Districts - Noncompetitive	11000-SDE64000-17043-82053	2,543,907
Extended School Hours Program Grant	11000-SDE64000-17043-82054	307,185
Summer School Accountability Grant	11000-SDE64000-17043-82055	364,335
Young Parents Program	11000-SDE64000-17044	16,376
School Breakfast	11000-SDE64000-17046	107,166
Magnet Schools	11000-SDE64000-17057	7,842,696
Adult Education - Young Adult Learner	11000-SDE64000-17091	71,427
School Readiness Quality Enhancement	12060-SDE64000-90242	99,475
State Funds for Technology Infrastructure	12052-SDE64370-42860	<u>61,750</u>
Total Department of Education		<u>18,789,476</u>
Department of Environmental Protection		
Open Space Agreements	13019-DEP44420-41239	380,474
Clean Water Act Section 319 - Nonpoint Pollution Program	12060-DEP43720-20871	<u>48,348</u>
Total Department of Environmental Protection		<u>428,822</u>

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CITY OF WATERBURY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE
FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Connecticut State Library		
Grants to Public Libraries	11000-CSL66051-17003	\$ 5,382
Connecticard Payments	11000-CSL66051-17010	2,185
Historic Documents Preservation Grants	12060-CSL66094-35150	<u>17,000</u>
Total Connecticut State Library		<u>24,567</u>
Office of Policy and Management		
Reimbursement of Property Taxes - Disability Exemption	11000-OPM20600-17011	39,069
Payment in Lieu of Taxes (PILOT) on Exempt Property of Manufacturing Facilities in Distressed Municipalities	11000-OPM20600-17016	262,167
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	816,356
Property Tax Relief for Elderly Homeowners - Freeze Program	11000-OPM20600-17021	20,000
Property Tax Relief for Veterans	11000-OPM20600-17024	203,406
Property Tax Relief for Manufacturing Machinery and Equipment and Commercial Vehicles	11000-OPM20600-17031	2,306,903
Local Capital Improvement Program	12050-OPM20600-40254	<u>1,031,768</u>
Total Office of Policy and Management		<u>4,679,669</u>
Department of Public Health		
Childrens Health Initiatives	11000-DPH48500-12126	175,264
Lead Poisoning Prevention Program	11000-DPH48500-12227	50,726

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CITY OF WATERBURY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE
FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
"AIDS" Services	11000-DPH48500-12236	\$ 408,132
Local and District Departments of Health	11000-DPH48500-17009	138,183
Sexually Transmitted Disease Control	11000-DPH48500-17013	23,355
Medication Adherence Program	11000-DPH48854-12112	22,080
Immunization	11000-DPH48500-10020	<u>35,542</u>
Total Department of Public Health		<u>853,282</u>
Department of Public Safety		
Telecommunications Fund	12060-DPS32740-35190	203,078
State Assets Forfeiture Revolving Fund	12060-DPS32155-35142	155,851
Local Officer Incentive Program	12060-DPS32539-90201	6,377
SNTF Local Officer Incentive Program	11000-DPS32539-17089	<u>9,600</u>
Total Department of Public Safety		<u>374,906</u>
Department of Revenue Services, Division of Special Revenue		
Payments to Municipalities - Bingo Payments	34003-DSR18309-42350	1,051
Payments to Municipalities	34004-DSR18307-40001	<u>174,351</u>
Total Department of Revenue Services, Division of Special Revenue		<u>175,402</u>

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CITY OF WATERBURY, CONNECTICUT
SCHEDULE OF EXPENDITURES OF STATE
FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008

<u>State Grantor/Program Title</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
Department of Social Services		
Medicaid	11000-DSS60000-16020	\$ 1,110,675
Community Services	11000-DSS60000-17032	1,663
Neighborhood Facilities (NF)	13019-DSS60783-41242	<u>13,923</u>
Total Department of Social Services		<u>1,126,261</u>
Department of Transportation		
Town Aid Roads Grants Transportation Fund	12001-DOT57000-17036	<u>295,976</u>
Total State Financial Assistance Before Exempt Programs		<u>44,716,837</u>
Exempt Programs		
Department of Education		
Public School Transportation	11000-SDE64000-17027	2,302,090
Educational Cost Sharing	11000-SDE64000-17041	106,126,994
Educational Cost Sharing - Accountability	11000-SDE64000-17041	2,204,097
Excess Costs Student Based and Equity	11000-SDE64000-17047	2,887,487
Nonpublic School Transportation	11000-SDE64000-17049	446,032
School Construction Grants	13010-SDE64000-40901	<u>18,263,564</u>
Total Exempt Programs		<u>132,230,264</u>
Total State Financial Assistance		<u>\$ 176,947,101</u>

CITY OF WATERBURY, CONNECTICUT

NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2008

Various departments and agencies of the State of Connecticut have provided financial assistance to the City of Waterbury, Connecticut, through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. The financial assistance programs fund several programs including education, environmental protection, public safety, human services and transportation.

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

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

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

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

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

The schedule of expenditures of state financial assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Sections 4-236-22), certain grants are not dependent on expenditure activity and, accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the schedule of expenditures of state financial assistance.

Note 2 - **Loan Programs:**

In accordance with Section 4-236-23(a)(4)(F) of the Regulations to the State Single Audit Act, the notes to the Schedule of Expenditures of State Financial Assistance shall include loans and loan activities. The following is a summary of the various loan program activity for the year ended June 30, 2008 (dollars presented in thousands):

Department of Transportation:

Local Bridge Programs (21010-DOT57000-42310):

	Washington Ave. Bridge
Issue Date	7/1/98
Interest Rate	6.0%
Original Amount	\$ 3,795
Balance - Beginning of Year	\$ 47
Repayments	(47)
Balance - End of Year	\$ -

Department of Environmental Protection:

Clean Water Funds (21015-OTT14230-42318):

Permanently Financed Loans:

	Issue Date	Interest Rate	Original Amount	Balance - Beginning of Year	Issued	Paid	Balance - End of Year
CWF Note (201-P)	08/30/95	2.0	\$ 4,008	\$ 1,277	\$	\$ 178	\$ 1,099
CWF Note (201-D)	07/31/97	2.0	6,448	2,803		284	2,519
CWF Note (201-C1)	12/31/00	2.0	69,647	49,373		3,359	46,014
CWF Note (344-C)	10/30/02	2.0	11,547	8,906		520	8,386
CWF Note (351-C)	11/30/03	2.0	2,424	2,038		111	1,927
CWF Note (351-C1)	05/30/04	2.0	2,953	2,535		137	2,398
CWF Note (201-CD1)	06/30/04	2.0	1,138	952		64	888
CWF Note (351-CD1)	11/30/05	2.0	544	502		27	475
CWF Note (201-CD2)	06/29/07	2.0	226	226		15	211
Total Clean Water Fund			\$ 68,612	\$ -	\$	\$ 4,695	\$ 63,917



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

To the Honorable Mayor and
Board of Aldermen
City of Waterbury, Connecticut

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Waterbury, Connecticut, as of and for the year ended June 30, 2008, which collectively comprise the City of Waterbury, Connecticut's basic financial statements and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-1 and 2008-2 to be significant deficiencies in internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Waterbury, 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 the management of the City of Waterbury, Connecticut, in a separate letter dated December 15, 2008.

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

Blum, Shapiro & Company, P.C.

December 15, 2008

CITY OF WATERBURY, CONNECTICUT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

I. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

State Financial Assistance

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act? _____ yes X no

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

<u>State Grantor and Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
Office of the State Comptroller:		
Payment in Lieu of Taxes (PILOT) on State-Owned Property	11000-OSC15910-17004	\$ 4,354,658
Payment in Lieu of Taxes (PILOT) on Private Colleges and General Hospitals	11000-OSC15910-17006	8,384,088
Mashantucket Pequot/Mohegan Fund	12009-OSC15910-17005	4,743,337
Department of Education:		
Adult Education	11000-SDE64000-17030	3,336,426
Health Services	11000-SDE64000-17034	574,602
Priority School Districts	11000-SDE64000-17043-82052	2,657,734
Early Reading Success Grant Program For Priority School Districts	11000-SDE64000-17043-82053	2,543,907
Magnet Schools	11000-SDE64000-17057	7,842,696

Office of Policy and Management:		
Property Tax Relief for Elderly and Totally Disabled Homeowners	11000-OPM20600-17018	\$ 816,356
Property Tax Relief for Manufacturing Machinery and Equipment and Commercial Vehicles	11000-OPM20600-17031	2,306,903
Local Capital Improvement Program	12050-OPM20600-40254	1,031,768
Department of Social Services:		
Medicaid	11000-DSS60000-16020	1,110,675

II. Financial Statement Findings

1. We issued reports, dated December 15, 2008, on internal control over financial reporting and on compliance based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
2. Our report on compliance indicated no reportable instances of noncompliance.
3. Our report on internal control over financial reporting indicated the following two significant deficiencies related to the City's Compensated Absences and Aged Receivables. We do not consider the significant deficiencies to be material weaknesses.

2008-1

Significant Deficiency - Compensated Absences

Condition

City departments and the Board of Education, based on their interpretation of contract provisions, are independently responsible for the accounting and control of accrued used/unused absences and the calculation of payments to employees upon their retirement. This decentralized process limits the extent of controls over tracking and awarding accrued time and allows for varied interpretations of contract provisions. Departmental procedures for tracking accrued time are not consistent. Additionally, certain departments are unable to adequately provide the information used in the annual calculation of the City's accrued absences liability estimate for the comprehensive annual financial report.

Board of Education payments for unused absences are commonly amortized out over a period of years and are tracked on an Excel spreadsheet for employees who have retired. Internal policies and procedures do not exist to provide for the periodic update and reconciliation of the retirement obligations payable spreadsheet with payments made during the year.

Context

The risk of reporting an incorrect accrued obligation in amounts considered more than inconsequential exists and constitutes a significant deficiency in internal control over financial reporting.

Effect

The estimated accrued obligation for compensated absences recorded on the government-wide statement of net assets could be over/understated due to the deficiency in internal controls over the tracking of employee absences awarded and used.

Cause Effective internal systems and processes are not in place to provide for the accumulation of data and reporting of compensated absences.

Recommendation The HR/Payroll management system should be used to track time earned/used for all City employees and to provide the sole source reporting of accrued time. Controls associated with the recording, reporting and monitoring of balances would be significantly improved utilizing the HR/Payroll management system for this process. The process of calculating payments to retiring employees for unused absences, payable in accordance with contract provisions, should be centrally administered once all accrued absences are accounted for on the HR/Payroll management system.

Internal policies and procedures should also be established to administer the periodic update and reconciliation of retirement obligations payable to retired Board of Education employees and include reconciliation of the control spreadsheet with payments made during the year.

Management Response It has been the plan of the Finance department to integrate automated time management with the Lawson system upgrade scheduled to be implemented in 2009. The Lawson system solution required development of labor bargaining unit grids identifying contractual provisions for absences associated with vacation, personal and illness allowance unique to each unit. Substantial monies have been appropriated to accomplish the task of not only upgrading the system software but also to include features such as "Absence Management." Unfortunately, the cost of the project exceeded the financial resources to the extent we are only able to accomplish the core requirements of the Lawson system upgrade. We have, however, developed an automated application utilizing the technical resources of the City's IT department that we believe accomplishes the goal of accurately recording employee absences. Effectively, we have created standard input documentation that not only serves as input for employee compensation per pay cycle but also interfaces with the in-house developed "Absence Management" application. It has been tested and successfully implemented beginning July 1, 2008 for a number of City and Education departments. Additional departments are scheduled to utilize the Absence Management application starting in January 2009. We believe the solution fully addresses the audit recommendation and saves the City significant monies by not implementing the Lawson module alternative.

2008-2 Significant Deficiency - Aged Receivables (Enterprise Funds)

Condition As of June 30, 2008, the Water Pollution Control Enterprise Fund delinquent receivables totaled \$11.4 million; an estimated amount of \$7.4 million, or 65%, of this amount has been reserved for doubtful accounts. The Water Enterprise Fund delinquent receivables totaled \$9.9 million; an estimated amount of \$6.5 million, or 65%, of this amount has been reserved for doubtful collections. In both enterprise funds, the majority of delinquent receivables are significantly aged.

Establishing a more accurate estimate of the amounts deemed uncollectible is extremely difficult due to the aged receivable file reporting limitations, the number of significantly aged accounts and the failure to effectively analyze and identify uncollectible accounts for disposition including the write-down of accounts deemed uncollectible.

Context	The risk of reporting an unreasonable estimate of the allowance for doubtful collections in relation to the aged accounts receivable balance exists and constitutes a significant deficiency in internal control over financial reporting.
Effect	The estimated allowance for doubtful collections that is applied against the gross aged receivable amount results in a net receivable reported in the Water and Water Pollution Control enterprise funds. The estimated allowance could be over/understated due to the deficiency in internal controls over the maintenance of the accounts in the aged receivable file.
Cause	Effective internal systems and processes are not in place to provide for the current maintenance of the aged receivable file that provides for a process to formally recommend accounts deemed uncollectible for approval to remove the active aged receivable file.
Recommendation	Accounts deemed uncollectible should be removed from the active receivable file in accordance with a documented collection policy. Internal procedures, and aged receivable reporting tools, should be improved and expanded to control the aged receivable file. Percentages and other factors used in the annual calculation of the estimated allowance for doubtful collections should be documented. Budgeting for an annual bad debt expense should be included in the budgetary and rate setting policies.
Management Response	The City has retained the services of a management consultant to assist the administrative staff of the Water and Water Pollution Control (WPC) departments to review, analyze and develop a listing of accounts determined to be uncollectible. The engagement commenced in the beginning of December 2008 after funding was put in place for the project. The City expects to make a series of presentations in the coming months to the Board of Public Works and the Board of Aldermen after thoroughly validating the uncollectability status of the accounts examined. The project plan is structured to carve-out a series or blocks of accounts from the receivable ledger, examine the circumstances of the delinquency and authenticate the write-off recommendation. It is expected the receivable ledgers of Water and WPC will be adjusted prior to the conclusion of fiscal 2009.

III. State Financial Assistance Findings and Questioned Costs

No findings or questioned costs are reported relating to State awards.