

CITY OF MANCHESTER, NEW HAMPSHIRE

FEDERAL FINANCIAL AND COMPLIANCE REPORT
For the Year Ended June 30, 2011

CITY OF MANCHESTER, NEW HAMPSHIRE

FEDERAL FINANCIAL AND COMPLIANCE REPORT

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Board of Mayor and Aldermen
City of Manchester, New Hampshire

Compliance: We have audited the City of Manchester, New Hampshire's (the "City") 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 Manchester, New Hampshire's major federal programs for the year ended June 30, 2011. The City of Manchester, New Hampshire's major federal programs are identified in the summary of auditor's 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 Manchester, New Hampshire's management. Our responsibility is to express an opinion on the City of Manchester, New Hampshire's compliance based on our audit.

The City of Manchester, New Hampshire's basic financial statements include the operations of the Manchester Transit Authority and the Manchester School District Component units of the City, which received \$28,040,794 in federal awards which is not included in the schedule during the year ended June 30, 2011. Our audit described below, did not include the operations of the Manchester Transit Authority and the Manchester School District as these component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

In addition, the City's basic financial statements include the operations of the City of Manchester Employees' Contributory Retirement System, a component of the City. Our audit described below, did not include this component unit because it was not required to be audited in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Manchester, New Hampshire'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 on the City of Manchester, New Hampshire's compliance with those requirements.

In our opinion, the City of Manchester, New Hampshire complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance: Management of the City of Manchester, New Hampshire is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Manchester, New Hampshire's internal control over compliance with 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 Manchester, New Hampshire's internal control over compliance.

A deficiency in 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 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards: We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire as of and for the year ended June 30, 2011, and have issued our report thereon dated March 27, 2012. Our report was modified to include a reference to other auditors. Our audit and the audit of other auditors were performed for the purpose of forming opinions on the financial statements that collectively comprise the City'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.

This report is intended solely for the information and use of the Board of Mayor and Aldermen, the management of the City of Manchester, New Hampshire and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New Haven, Connecticut
March 27, 2012

CITY OF MANCHESTER, NEW HAMPSHIRE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Federal Grantor Pass-Through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
Department of Health and Human Services:		
Consolidated Health Centers	93.224	\$ 442,523
Passed Through the State of New Hampshire Department of Health and Human Services:		
Immunization Cluster:		
Childhood Immunization Grants	93.268	88,102
ARRA-Immunization	93.712	98,113
Total Immunization Cluster		<u>186,215</u>
Block Grants for Prevention and Treatment of Substance Abuse	93.959	22,500
Medical Reserve Corps Small Grant Program	93.008	2,560
Public Health Emergency Preparedness	93.069	32,101
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	24,659
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	54,942
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	15,065
Centers for Disease Control & Prevention-Investigation and Technical Assistance	93.283	452,463
Refugee and Entrant Assistance - Discretionary Grants	93.576	10,275
ARRA-Grants to Health Center Programs	93.703	124,537
Preventative Health Services-Sexually Transmitted Diseases Control Grants	93.977	83,195
Preventative Health & Health Services Block Grant	93.991	46,273
Total Department of Health and Human Services		<u>1,497,308</u>
Department of Justice:		
Juvenile Justice and Delinquency Prevention	16.540	118,310
The Community - Defined Solutions to Violence Against Women Grant Program	16.590	176,574
ARRA Public Safety Partnership & Community Policing Grants	16.710	724,238
JAG Program Cluster:		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	109,079
ARRA-Edward Byrne Memorial Justice Assistance Grant Program/ Grants to Unite Local Governments	16.804	364,542
Total JAG Program Cluster		<u>473,621</u>
Passed Through State of New Hampshire Office of the Attorney General:		
Sexual Assault Services Formula Program	16.017	158,932
Violence Against Women Formula Grants	16.588	166,521
Enforcing Underage Drinking Laws Program	16.727	22,739
Total Department of Justice		<u>1,840,935</u>
Department of Homeland Security:		
Passed Through State of New Hampshire Department of Safety:		
Emergency Management Performance Grants	97.042	13,904
Homeland Security Grant Program	97.067	4,439
Assistance to Firefighters Grant	97.044	138,891
Buffer Zone Protection Program	97.078	91,845
State Homeland Security Program (SHSP)	97.073	184,202
Total Department of Homeland Security		<u>433,281</u>

See Notes to Schedule.

(Continued)

CITY OF MANCHESTER, NEW HAMPSHIRE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
For the Year Ended June 30, 2011

Federal Grantor Pass-Through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
Department of Transportation:		
Airport Improvement Program	20.106	9,033,004
Passed Through State of New Hampshire Department of Transportation:		
Highway Planning and Construction Cluster:		
Highway Planning & Construction	20.205	3,685,085
Recreational Trails Program	20.219	40,620
Total Highway Planning and Construction Cluster		<u>3,725,705</u>
State and Community Highway Safety	20.600	336,959
Alcohol Impaired Driving Countermeasures	20.601	24,948
Total Department of Transportation		<u>13,120,616</u>
Department of Housing and Urban Development:		
Community Development Block Grant Cluster:		
Community Development Block Grants/Entitlement Grants	14.218	1,865,270
ARRA Community Development Block Grant ARRA Entitlement Grants	14.253	199,295
Total Community Development Block Entitlement Grant Cluster		<u>2,064,565</u>
State-Administered Community Development Block Grant Cluster:		
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	4,584,159
HOME Investment Partnerships Program	14.239	818,170
Emergency Shelter Grant Program	14.231	61,729
ARRA-Neighborhood Stabilization Recovery	14.256	54,000
ARRA-Homeless Prevention & Rapid Re-Housing	14.257	385,392
Lead Hazard Reduction Demonstration Grant Program	14.905	84,058
		<u>1,403,349</u>
Total Department of Housing and Urban Development		<u>8,052,073</u>
Environmental Protection Agency:		
Healthy Communities Grant Program	66.110	5,204
Congressionally Mandated Projects	66.202	264,212
Capitalization Grants for Clean Water State Revolving Funds	66.458	1,911,126
Nonpoint Source Implementation Grants	66.460	13,100
Capitalization Grants for Drinking Water State Revolving Funds	66.468	83,040
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	333,800
Brownfields Training, Research, and Technical Assistance Grants	66.818	2,800
Total Environmental Protection Agency		<u>2,613,282</u>
Department of Energy:		
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	259,299
Total Expenditures of Federal Awards		<u>\$ 27,816,794</u>

See Notes to Schedule.

CITY OF MANCHESTER, NEW HAMPSHIRE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Manchester and is presented on the modified accrual basis of accounting for grants which are accounted for in the governmental fund types and on the accrual basis of accounting for grants which are accounted for in the proprietary fund types. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF MANCHESTER, NEW HAMPSHIRE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011**

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes 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? 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 510(a) of Circular A-133? Yes X No

Identification of Major Programs

CFDA Numbers	Program Name or Cluster
14.228	State Administered Community Development Block Grant Cluster
16.710	ARRA Public Safety Partnership & Community Policing Grants
66.458	Capitalization Grants for Clean Water State Revolving Funds
16.738/16.804	JAG Program Cluster
93.268/93.712	Immunization Cluster

Dollar threshold used to distinguish between type A and type B programs

 \$ 834,504

Auditee qualified as low-risk auditee? X Yes No

CITY OF MANCHESTER, NEW HAMPSHIRE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2011

II. FINANCIAL STATEMENT FINDINGS

A. Deficiencies in Internal Control

Material Weakness in Internal Control

IC11-1. Financial Reporting

Criteria

Auditing standards require internal control policies and procedures to enable the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

Condition

The City's internal control procedures did not prevent misapplication of GAAP, in regards to properly presenting the annual required contribution and accrued liabilities associated with the City's OPEB plan, which resulted in a restatement of the prior year's financial statements.

Context

Although the City made every effort to present their financial statements in accordance with GAAP, they incorrectly applied GAAP related to reporting of liabilities and disclosures related to their OPEB plan.

Effect

The City's financial statements had to be restated.

Recommendation

Management should develop a process for reviewing and verifying all required information is provided to the actuary for proper calculation of OPEB liabilities and disclosures.

View of Responsible Officials and Planned Corrective Action

The City has established a procedure to ensure their financial statements are in accordance with GAAP, and that all required information is reviewed for completeness and accuracy prior to providing the information to their actuary.

CITY OF MANCHESTER, NEW HAMPSHIRE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2011

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**CITY OF MANCHESTER, NEW HAMPSHIRE
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2011**

There were no findings relative to federal awards in the prior year.



**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 Board of Mayor and Aldermen
City of Manchester, New Hampshire

We have audited the financial statements of the governmental activities, the business type activities, the discretely presented component unit each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire (the "City") as of and for the year ended June 30, 2011, and have issued our report thereon dated March 27, 2012. Our report includes modifications for the adoption of a new accounting standard and for the correction of an error in previously issued financial statements. In addition our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the following component units: Manchester Transit Authority, Manchester School District and the City of Manchester Employees' Contributory Retirement System.

This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

Internal Control Over Financial Reporting: In planning and performing our audit, we considered the City of Manchester, New Hampshire's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Manchester, New Hampshire's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Manchester, New Hampshire'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *Schedule of*

Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 entity'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* to be a material weakness IC11-01.

Compliance and Other Matters: As part of obtaining reasonable assurance about whether the City of Manchester, New Hampshire'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 Manchester, New Hampshire in a separate letter dated March 27, 2012.

This report is intended solely for the information of the management and the Board of Mayor and Aldermen of the City of Manchester, New Hampshire and 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.

McGladrey & Pullen, LLP

New Haven, Connecticut
March 27, 2012