

CITY OF WALTHAM, MASSACHUSETTS

**REPORTS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING, COMPLIANCE AND
FEDERAL AWARD PROGRAMS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

CITY OF WALTHAM, MASSACHUSETTS
REPORTS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING, COMPLIANCE AND
FEDERAL AWARD PROGRAMS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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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 City Council
City of Waltham, Massachusetts

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 Waltham, Massachusetts, as of and for the fiscal year ended June 30, 2012 (except for the Waltham Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2011), which collectively comprise the City of Waltham, Massachusetts' basic financial statements and have issued our report thereon dated January 18, 2013. 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 Waltham, Massachusetts' 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 Waltham, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Waltham, Massachusetts' 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

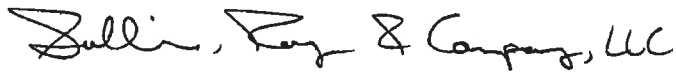
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. We consider the deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs as items 12-1, 12-2, 12-3, 12-4 and 12-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Waltham, Massachusetts' 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 Waltham, Massachusetts, in a separate letter dated January 18, 2013.

This report is intended solely for the information and use of management, the Mayor, the City Council, 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.



January 18, 2013



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Independent Auditors' 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

To the Honorable Mayor and City Council
City of Waltham, Massachusetts

Compliance

We have audited the compliance of the City of Waltham, Massachusetts (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2012. The City'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's management. Our responsibility is to express an opinion on the City'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, *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'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's compliance with those requirements.

As described in items 12-8 and 12-9 in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding allowable costs/cost principles, reporting, eligibility, and special tests and provisions that are applicable to its Child Nutrition Cluster program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City 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 fiscal year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-11, 12-15, 12-16, and 12-17.

Internal Control Over Compliance

Management of the City 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'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's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-6, 12-7, 12-10, 12-12, 12-13, 12-14, and 12-18 to be material weaknesses.

Schedule of Expenditures of Federal Awards

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 Waltham, Massachusetts, as of and for the fiscal year ended June 30, 2012 (except for the Waltham Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2011), and have issued our report thereon dated January 18, 2013, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

This report is intended solely for the information and use of management, the Mayor, the City Council, 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.

Sullivan, Berg & Company, LLC

January 18, 2013

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
<u>Passed through the State Department of Education:</u>			
Food Distribution Program	10.550	09-308	\$ 157,109
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553	09-308	209,020
National School Lunch Program	10.555	09-308	953,849
Special Milk Program for Children	10.556	09-308	1,041
Fresh Fruit and Vegetable Program	10.582	09-308	35,089
Total U.S. Department of Agriculture			1,356,108
U.S. Department of Housing and Urban Development			
<u>Direct Program:</u>			
Community Development Block Grant	14.218	Not Applicable	1,248,030
U.S. Department of Justice			
<u>Passed through the State Executive Office of Public Safety:</u>			
Edward Byrne Memorial Justice Assistance Grant	16.738	Not available	4,573
Institute of Museum and Library Services			
<u>Passed through the State Library Board of Commissioners:</u>			
Library Services and Technology Grant	45.310	Not available	470
U.S. Department of Education			
<u>Direct Programs:</u>			
Physical Education Grant	84.215F	Not Applicable	123,325
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
<i>Title I, Part A Cluster</i>			
Title I Distribution (fiscal year 2011)	84.010	305-086-1-0308-L	156,326
Title I Distribution (fiscal year 2012)	84.010	305-073-2-0308-M	479,421
Title I Carryover (fiscal year 2012)	84.010	305-416-2-0308-M	17,485
Title I School Support (fiscal year 2011)	84.010	323-061-1-0308-L	20,550
Title I School Support (fiscal year 2012)	84.010	323-063-2-0308-M	9,500
ARRA - Title I Grants (fiscal year 2011)	84.389	770-112-1-0308-L	350,632
<i>Special Education Cluster</i>			
SPED 94-142 Allocation (fiscal year 2011)	84.027	240-321-1-0308-L	334,270
SPED 94-142 Allocation (fiscal year 2012)	84.027	240-131-2-0308-M	1,205,274
SPED Program Improvement (fiscal year 2012)	84.027	274-279-2-0308-M	43,656
ARRA - SPED IDEA (fiscal year 2011)	84.391	760-049-1-0308-L	61,748
<u>Passed through the State Department of Early Education and Care:</u>			
SPED Early Childhood Allocation (fiscal year 2011)	84.173	26211WALTHAMPUBLIC	21,886
SPED Early Childhood Allocation (fiscal year 2012)	84.173	26212WALTHAMPUBLIC	47,596
ARRA - Early Childhood Allocation (fiscal year 2011)	84.392	76211WALTHAMPUBLIC	34,727

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education (continued)			
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Carl Perkins Occupational Education (fiscal year 2011)	84.048	400-017-1-0308-L	6,940
Carl Perkins Occupational Education (fiscal year 2012)	84.048	400-025-2-0308-M	47,499
Safe and Drug-Free Schools - CII (fiscal year 2011)	84.186	332-154-1-0308-L	3,480
Education for Homeless Children & Youth (fiscal year 2011)	84.196	310-009-1-0308-L	3,185
Education for Homeless Children & Youth (fiscal year 2012)	84.196	310-013-2-0308-M	18,095
Even Start State Educational Agencies (fiscal year 2011)	84.213	304-004-1-0308-L	45,516
Even Start State Educational Agencies (fiscal year 2012)	84.213	304-003-2-0308-M	68,895
Title III - English Language Acquisition (fiscal year 2011)	84.365	180-021-1-0308-L	68,049
Title III - English Language Acquisition (fiscal year 2012)	84.365	180-024-2-0308-M	27,090
Title IIA - Improving Teacher Quality (fiscal year 2011)	84.367	140-108-1-0308-L	94,818
Title IIA - Improving Teacher Quality (fiscal year 2012)	84.367	140-244-2-0308-M	147,040
Title IIA - DSAC Targeted Assistance Grant (fiscal year 2011)	84.367	143-046-1-0308-L	39,109
ARRA - State Fiscal Stabilization Fund (SFSF)	84.394	780-013-2-0308-M	37,743
<i>State Fiscal Stabilization Fund - Race to the Top Incentive Grants</i>			
ARRA - Race to the Top (fiscal year 2011)	84.395	201-233-1-0308-L	54,107
ARRA - Race to the Top (fiscal year 2012)	84.395	201-199-2-0308-M	61,161
ARRA - Race to the Top SIF (fiscal year 2012)	84.395	204-023-2-0308-M	4,920
ARRA - Education Jobs Grant	84.410	206-043-2-0308-M	519,232
Total U.S. Department of Education			4,153,275
U.S. Department of Health and Human Services			
<u>Passed through the State Executive Office of Health and Human Services Department of Public Health:</u>			
School-Based Medicaid Reimbursement Program	93.778	110030884	287,129
U.S. Department of Homeland Security			
<u>Passed through the State Office of Emergency Management:</u>			
Public Assistance Grants	97.036	CTFEMA1959WALTH00313	286,559
Public Assistance Grants	97.036	CTFEMA3330WALTH00132	28,150
Emergency Management Performance Grants	97.042	FY11EMPG090000WALTH	24,998
Total U.S. Department of Homeland Security			339,707
Total			\$ 7,389,292
(concluded)			

See notes to schedule of expenditures of federal awards.

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Waltham, Massachusetts and is presented on the cash 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 – U.S. Department of Agriculture

The amount reported for the Food Distribution Program represents non-monetary assistance and is reported in the schedule at the fair market value of the commodities received. The amounts reported for the School Breakfast Program, National School Lunch Program, and Special Milk Program for Children represent cash receipts from federal reimbursements.

Note 3 – U.S. Department of Health and Human Services

The amount reported for the School-Based Medicaid Reimbursement Program represents federal reimbursements related to the Administrative Activity Claims.

Note 4 – U.S. Department of Homeland Security

The amounts reported for the Public Assistance Grants and Emergency Management Performance Grants represent federal reimbursements.

Note 5 – Sub-recipients

The City of Waltham, Massachusetts provided the following awards to sub-recipients for the fiscal year ended June 30, 2012:

<u>Program Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 135,583

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Waltham, Massachusetts.
2. Material weaknesses in the internal control over financial reporting disclosed during the audit of the basic financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the City of Waltham, Massachusetts, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Material weaknesses in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditors' 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.
5. The auditors' report on compliance for the major federal award programs for the City of Waltham, Massachusetts expresses a qualified opinion on the Child Nutrition Cluster and an unqualified opinion on all other major federal award programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule on pages 13-19.
7. The programs tested as major programs were:

Program Description	CFDA Number
<i>Child Nutrition Cluster</i>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Community Development Block Grant	14.218
<i>Title I, Part A Cluster</i>	
Title I Distribution	84.010
Title I Carryover	84.010
Title I School Support	84.010
ARRA - Title I Grants	84.389
<i>Special Education Cluster</i>	
SPED 94-142 Allocation	84.027
SPED Program Improvement	84.027
SPED Early Childhood Allocation	84.173
ARRA - SPED IDEA	84.391
ARRA - SPED Early Childhood	84.392
ARRA - Education Jobs Grant	84.410
Public Assistance Grants	97.036

8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Waltham, Massachusetts qualified as a low-risk auditee.

B. Findings – Financial Statement Audit

Material Weaknesses in the Internal Control over Financial Reporting

12-1 Health Insurance Costs Appropriated in the General Fund

Finding: The City appropriates the health insurance costs of the water, sewer and rink enterprise funds in the general fund. As a result, the enterprise funds' budgets include a reimbursement to the general fund to offset the applicable costs. We identified that, historically, the City transfers the enterprise funds' health insurance costs to the City's health claims internal service fund instead of the general fund.

Effect: The general fund balance was understated and the internal service fund's net assets were overstated by the cumulative effect of the annual accounting errors, which totaled \$7,013,004. Of this amount, \$6,128,917 was the cumulative effect through June 30, 2011 and \$884,087 applied to fiscal year 2012. The financial statements have been properly adjusted to reflect this activity.

Auditors' Recommendation: We recommend procedures be implemented to annually transfer all enterprise funds' costs appropriated in the general fund from the applicable enterprise fund to the general fund.

Response: The City will implement a procedure to ensure the annual transfer of the water, sewer and rink enterprise fund indirect costs appropriated in the general fund from the applicable enterprise fund to the general fund.

12-2 Direct Entries to Fund Balance

Finding: Many revenue, expenditure and other financing source (use) transactions are recorded directly to fund balance accounts in the general ledger. This process does not accurately reflect beginning fund balance and current year activity, which inhibits accurate financial reporting. The primary cause of this condition is that other financing source (e.g., transfers in, bond proceeds, etc.) and other financing use (e.g., transfers out) accounts are not included as part of the subsidiary accounting ledgers. As a result, these types of transactions are being recorded directly to fund balance.

Effect: Beginning fund balance, revenue, expenditure/expense and other financing sources (uses) were overstated or understated in the general fund, community development block grant fund, city capital projects fund, nonmajor governmental funds, water, sewer and rink enterprise funds, and the internal service fund, which required significant adjustments to properly report beginning fund balances and current year activity in the financial statements.

Auditors' Recommendation: We recommend other financing source and other financing use accounts be established in the subsidiary accounting ledgers for all funds maintained. We also recommend that procedures be implemented to eliminate the posting of any transaction directly to fund balance, unless the transaction is a journal entry between fund balance accounts in the same fund.

Response: The City will establish other financing sources and other financing uses accounts for all funds maintained and eliminate the posting of transactions directly to the fund balance accounts.

12-3 Capital Assets

Finding: We identified the following deficiencies related to the City's accounting for capital assets:

1. The City does not perform a complete annual physical inventory of its capital assets to reconcile with its perpetual inventory records. The performance of an annual physical inventory assists with detecting errors and/or irregularities with the perpetual inventory. It also assists with detecting capital asset activity that is not reflected in the general ledger (such as asset retirements, trade-ins, etc.).
2. The City does not record its governmental activities capital asset balances in a general fixed assets account group on the general ledger. In addition, capital assets of the water, sewer and rink enterprise funds are recorded directly in the respective enterprise fund. These capital asset balances have not been updated for many years.

Effect: Due to the lack of performing a complete physical inventory, there is more than a remote likelihood that the City's internal control would not have prevented or detected a material misstatement of capital assets. In addition, total assets and net assets were misstated in the governmental activities, business-type activities and enterprise funds.

Auditors' Recommendation: We recommend the following:

1. Procedures be implemented to perform a physical inventory (annually, at a minimum) of the City's capital assets. The inventory could either be performed at the departmental level or centrally by a management level employee(s) that possess significant knowledge of the City's financial operations.
2. Capital assets be accounted for in four separate capital asset funds (e.g., governmental, water, sewer and rink). These funds should be updated annually (at a minimum) for the related capital asset activity.

Response: (1) The City will implement new procedures, including the purchase of fixed asset software, for performing an annual inventory of its capital assets. Each department will be required to verify the capital assets under their control against the City's inventory records.

(2) The City will modify its existing chart of accounts to establish a general fixed assets account group for the governmental, water, sewer and rink activities. The City will annually update each of these accounts for the related capital asset activity.

12-4 Capital Projects

Finding: We identified one instance whereby a portion (\$1,010,501) of the proceeds of short-term debt/bond anticipation notes (BAN's) were recorded to the wrong capital projects funds in the general ledger. We also identified one instance whereby expenses, totaling \$164,953, related to a sewer capital project were erroneously recorded to the city capital projects fund, which is intended to account for governmental funds capital projects only.

Effect: BAN's payable were materially overstated in the water enterprise fund and understated in the sewer enterprise and city capital projects funds. Expenditures and capital assets were overstated in the city capital projects fund and governmental activities, respectively, and capital assets were understated in the sewer enterprise fund.

Auditors' Recommendation: We recommend procedures be implemented to record all capital projects activity in the appropriate fund.

Response: The City will implement a procedure to ensure the proper recording of all multi-fund capital projects activity (e.g. street reconstruction with utility improvements) in the appropriate capital projects fund.

12-5 Compensated Absences

Finding: The City calculates its compensated absence (e.g., earned but unused sick and vacation time) liability using estimated amounts that are based on the following departmental averages: (1) salaries, (2) calendar year vacation days, and (3) daily rates of pay. When estimates such as these are used, there must be a process to perform a retrospective analysis of prior years' estimates to validate the current year estimate. The City does not perform a retrospective analysis of its liability estimate.

Effect: The City's compensated absence liability was understated by approximately \$400,000. The financial statements have been properly adjusted to reflect this activity.

Auditors' Recommendation: We recommend actual compensated absence balances and amounts outstanding at fiscal year-end be utilized to calculate the City's compensated absence liability.

Response: The City will cease its current accepted method of using estimates and adopt a better method to accurately calculate the value of compensated absences at fiscal year end. The City will explore the functionality of its payroll software to extract actual compensated absence amounts and provide this information more accurately.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

DEPARTMENT OF AGRICULTURE

Material Weaknesses in the Internal Control over Major Programs

12-6 Child Nutrition Cluster – CFDA No.'s 10.553, 10.555, and 10.556; Fiscal year ended June 30, 2012

Condition and Criteria: The claims for reimbursement submitted to the Massachusetts Department of Elementary and Secondary Education (DESE) contained inaccurate information.

Cause: Internal controls are not in place to ensure that all claims for reimbursement are supported by sufficient documentation and that the claims are prepared based on that documentation.

Effect: Noncompliance with the federal award program's allowable costs/cost principles and reporting requirements occurred and were not detected and corrected.

Auditors' Recommendation: Internal controls must be implemented to maintain adequate supporting documentation for all claims for reimbursement and to reconcile the claims with the supporting documentation.

Grantee Response: Internal controls are in place to maintain adequate supporting documentation for claims for reimbursement submitted to the Massachusetts DESE, and those claims are reconciled with the

supporting documentation. One special program was identified as needing a modification for tracking eligible students. This modification has been implemented.

12-7 Child Nutrition Cluster – CFDA No.’s 10.553, 10.555, and 10.556; Fiscal year ended June 30, 2012

Condition and Criteria: The City did not comply with the eligibility and special tests and provisions compliance requirements.

Cause: Internal controls are not in place to ensure that the required lunch applications are maintained for all students, and that the eligibility statuses are updated accordingly based on the results of the verification summary process.

Effect: Noncompliance with the federal award program’s eligibility and special tests and provisions requirements occurred and was not detected and corrected timely.

Auditors’ Recommendation: Internal controls surrounding the federal award program must be implemented to ensure that lunch applications are maintained in the student files for all students receiving free and reduced lunches. Controls must also be implemented to ensure that the students’ eligibility statuses are changed to reflect the results of the verification summary process.

Grantee Response: Internal controls have been put in place to ensure that lunch applications are maintained in the student files for all students receiving free and reduced lunches and that the students’ eligibility statuses are changed to reflect the results of the verification summary process.

Material Noncompliance Related to Major Programs

12-8 Child Nutrition Cluster – CFDA No.’s 10.553, 10.555, and 10.556; Fiscal year ended June 30, 2012

Condition and Criteria: Some of the claim for reimbursement forms submitted to the DESE were not supported by proper documentation. For six of the claim months tested, the number of meals served (as reported to the DESE) did not agree to the detailed records of school nutrition activity.

Cause: Policies and procedures are not in place to reconcile claims for reimbursement to the supporting detailed records of school nutrition activity prior to submission to the DESE.

Effect: The claim for reimbursement forms submitted to the DESE for six of the claim months did not represent accurate meal counts, which are the basis for the City’s reimbursements.

Questioned Costs: Questioned costs related to this finding total \$1,987.

Auditors’ Recommendation: Procedures must be implemented to reconcile the claims for reimbursement to the supporting detailed records of meals served, with all exceptions clearly noted, detailed and resolved.

Grantee Response: Procedures are in place to maintain adequate supporting documentation for claims for reimbursement, with all exceptions clearly noted, detailed and resolved, prior to submission to the DESE. One special program was identified as needing a modification for tracking eligible students. This modification has been implemented.

12-9 Child Nutrition Cluster – CFDA No.'s 10.553, 10.555, and 10.556; Fiscal year ended June 30, 2012

Condition and Criteria: Four of the 60 student files tested were missing the original free/reduced lunch applications. Additionally, three of the 60 student files contained the incorrect eligibility status based on the results of the verification summary process.

Cause: Procedures are not in place to maintain the required lunch applications in the student files for all students, and to update the students' eligibility statuses according to the results of the verification summary process.

Effect: The City is not in compliance with federal grant eligibility and special tests and provisions requirements.

Questioned Costs: Questioned costs related to this finding total \$419.

Auditors' Recommendation: Procedures must be implemented to ensure that all student files include the lunch applications, as well as any income documentation obtained, to support the eligibility statuses determined for the students each school year. Procedures must also be implemented to update the students' eligibility statuses to reflect the results of the verification process.

Grantee Response: Procedures have been implemented to ensure that all student files include the lunch applications, as well as any income documentation obtained, to support the eligibility statuses determined for the students each school year and to update the files with the students' eligibility statuses to reflect the results of the verification process, including those students who do not meet eligibility requirements.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT*Material Weakness in the Internal Control over Major Programs*

12-10 Community Development Block Grant – CFDA No. 14.218; Fiscal year ended June 30, 2012

Condition and Criteria: The City did not comply with the reporting compliance requirements of the program related to sub-recipients.

Cause: Internal controls are not in place to file the required Federal Funding Accountability and Transparency Act (FFATA) Subaward Reports with the U.S. Department of Housing and Urban Development.

Effect: Noncompliance with the federal award program's reporting compliance requirements occurred and was not detected and corrected.

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to submit the required FFATA reports.

Grantee Response: The Planning Department recognizes and acknowledges that the filing of the FFATA form was not completed and we will work to correct that deficiency. The Planning Department believes that the oversight for filing may be due to the correspondence for such action having been directed to the now-vacant Director's position and not to the Asst. Director (fulfilling both roles since April, 2012). Again, we acknowledge the deficiency and state that the completed FFATA forms will be submitted via FSRS. Curiously, HUD did not detect the absence of filing and did not alert the Department to start

corrective action. The Planning Department will inform and work with its CPD representative to implement a plan for submission of any filings past due.

Noncompliance Related to Major Programs

12-11 Community Development Block Grant – CFDA No. 14.218; Fiscal year ended June 30, 2012

Condition and Criteria: The City did not file the required “FFATA Subaward Reports” with the U.S. Department of Housing and Urban Development during the program year for the City’s sub-recipients receiving sub-awards of \$25,000 or more related to the Community Development Block Grant program.

Cause: Procedures are not in place to submit the required reports related to its sub-recipients.

Effect: Program management is not in compliance with federal grant reporting requirements.

Questioned Costs: There are no questioned costs related to this finding.

Auditors’ Recommendation: Procedures must be implemented to ensure that the “FFATA Subaward Reports” are filed with the U.S. Department of Housing and Urban Development in a timely manner and in accordance with federal grant requirements.

Grantee Response: The Planning Department recognizes and acknowledges the deficiency in filing the FFATA forms and is beginning a corrective action plan. At the request of this department we will inform the Boston regional HUD office to direct all correspondence regarding future FFATA notifications to be sent directly to the attention of the Asst. Director, until such time as a Director is hired. The filings will be done under our existing Central Contractor Registration system and in accordance with all applicable rules and regulations pertaining thereof.

DEPARTMENT OF EDUCATION

Material Weaknesses in the Internal Control over Major Programs

12-12 Title I, Part A Cluster - CFDA No.’s 84.010 and 84.389; Fiscal year ended June 30, 2012

Condition and Criteria: The City did not obtain written contracts for all vendors providing professional services to the program.

Cause: Internal controls surrounding the program did not require the execution of contracts for all vendors providing professional services to the program.

Effect: The ability to substantiate the reasonableness of costs charged to the program is inhibited.

Auditors’ Recommendation: Internal controls surrounding the program must be implemented to require written contracts for all professional service providers.

Grantee Response: The City procurement policy is followed in all vendor transactions. The policy does not require written contracts for professional service providers. However, internal controls will be implemented to require written contracts for all professional service providers which will include a description of the service, estimate of time required, rate of compensation and termination provisions.

12-13 Special Education Cluster - CFDA No.'s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2012

Condition and Criteria: The City did not obtain written contracts for all vendors providing professional services to the program.

Cause: Internal controls surrounding the program did not require the execution of contracts for all vendors providing professional services to the program.

Effect: The ability to substantiate the reasonableness of costs charged to the program is inhibited.

Auditors' Recommendation: Internal controls surrounding the program must be implemented to require written contracts for all professional service providers.

Grantee Response: The City procurement policy is followed in all vendor transactions. The policy does not require written contracts for professional service providers. However, internal controls will be implemented to require written contracts for all professional service providers which will include a description of the service, estimate of time required, rate of compensation and termination provisions.

12-14 Special Education Cluster - CFDA No.'s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2012

Condition and Criteria: The City did not comply with the period of availability compliance requirements related to the program.

Cause: Internal controls are not in place to prevent costs incurred outside the period of availability from being charged to the Cluster grant programs.

Effect: Noncompliance with the federal award program's period of availability compliance requirements occurred and was not detected and corrected.

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to prevent costs incurred outside the period of availability from being charged to the Cluster grant programs.

Grantee Response: Internal controls will be implemented to prevent costs incurred outside the period of availability from being charged to the Cluster grant programs.

Noncompliance Related to Major Programs

12-15 Title I, Part A Cluster - CFDA No.'s 84.010 and 84.389; Fiscal year ended June 30, 2012

Condition and Criteria: The time and effort reports maintained for one of the employees working on the grant program were prepared based on budgeted time rather than actual time spent on grant activities. Additionally, the time and effort reports did not support the time that was charged to the grant for the employee.

Cause: Procedures were not in place to reconcile the hours charged to the grant with the hours recorded in the employee time and effort reports and to prepare the time and effort reports based on actual time spent.

Effect: The salary charges related to the employee are subject to disallowance and are considered questioned costs.

Questioned Costs: Questioned salary costs charged to the Title I, Part A Cluster program total \$3,904.

Auditors' Recommendation: Procedures must be implemented to ensure that all time and effort reports prepared reflect actual time spent on the grant program activities, and that the time charged to the grant program is appropriate and reconciled with the employee time and effort reports.

Grantee Response: Procedures will be implemented to ensure that all time and effort reports prepared reflect actual time spent on the grant program activities, and that the time charged to the grant program is appropriate and reconciled with the employee time and effort reports.

12-16 Special Education Cluster - CFDA No.'s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2012

Condition and Criteria: The City charged equipment costs obligated after June 30, 2011 to the ARRA – Early Childhood Allocation Grant. Expenditures incurred after June 30, 2011 are ineligible costs due to being outside the period of availability, as stated in the grant contract.

Cause: Procedures were not in place to prevent costs incurred outside the ARRA – Early Childhood Allocation Grant's period of availability from being charged to the program.

Effect: The equipment costs charged to the grant are subject to disallowance and, therefore, are considered questioned costs.

Questioned Costs: Questioned costs charged to the Special Education Cluster grant programs total \$16,298.

Auditors' Recommendation: Procedures must be implemented to ensure that only costs incurred within the period of availability are charged to the grant programs.

Grantee Response: Internal controls will be implemented to prevent costs incurred outside the period of availability from being charged to the Cluster grant programs.

12-17 Special Education Cluster - CFDA No.'s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2012

Condition and Criteria: The City did not file the Final Financial Reports (FR-1) with the DESE by the deadline date of October 31, 2012.

Cause: Policies and procedures are not in place to submit the required documentation in accordance with program requirements.

Effect: The City is not in compliance with federal grant reporting requirements.

Questioned Costs: There are no questioned costs related to this finding.

Auditors' Recommendation: Procedures must be implemented to ensure that the FR-1's are filed with the DESE timely and in accordance with federal grant requirements.

Grantee Response: Procedures will be implemented to ensure that the FR-1's are filed with the DESE timely and in accordance with federal grant requirements.

DEPARTMENT OF HOMELAND SECURITY***Material Weakness in the Internal Control over Major Programs***

12-18 Public Assistance Grants – CFDA No. 97.036; Fiscal year ended June 30, 2012

Condition and Criteria: The City does not have internal controls in place to comply with the program's procurement, suspension and debarment compliance requirements.

Cause: Internal controls are not in place to verify that the vendors contracted with in excess of \$25,000 related to the grant program are not suspended, debarred or otherwise excluded from doing business.

Effect: Noncompliance with the federal award program's procurement, suspension and debarment compliance requirements could occur and not be detected and corrected timely.

Auditors' Recommendation: Internal controls must be implemented to ensure that all vendors contracted with have not been suspended or debarred or otherwise excluded from doing business, prior to procuring their services. In order to verify this, program management should either obtain debarment certifications from the vendors or check the *Excluded Parties List System* website. Internal controls must also be implemented to maintain documentation supporting the debarment checks performed.

Grantee Response: The Public Works will issue blank debarment certificates, non-collusion certificates and tax compliance to all qualifying vendors for next plowing season. In addition, contractors will be asked to complete these certificates for the current 2013-14 season.

D. Summary of Prior Audit Findings

None.