

**CITY OF WALTHAM, MASSACHUSETTS**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**



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**REPORTS ON INTERNAL CONTROL OVER**  
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*Certified Public Accountants*

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, 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, 2013 (except for the Waltham Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the City of Waltham, Massachusetts' basic financial statements, and have issued our report thereon dated December 19, 2013.

**Internal Control Over Financial Reporting**

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

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

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

## Purpose of this Report

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

A handwritten signature in black ink that reads "Sullivan, Ray & Company, LLC". The signature is written in a cursive, flowing style.

December 19, 2013



*Certified Public Accountants*

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**Independent Auditors' Report on Compliance for Each Major Program and on  
Internal Control Over Compliance Required by OMB Circular A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Waltham, Massachusetts' 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 Waltham, Massachusetts' major federal programs for the fiscal year ended June 30, 2013. The City of Waltham, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Waltham, Massachusetts' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Waltham, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Waltham, Massachusetts' compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Waltham, Massachusetts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2013.

## Report on Internal Control over Compliance

Management of the City of Waltham, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to previously. In planning and performing our audit of compliance, we considered the City of Waltham, Massachusetts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Waltham, Massachusetts' internal control over compliance.

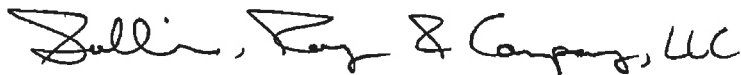
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2013 (except for the Waltham Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the City of Waltham, Massachusetts' basic financial statements. We issued our report thereon dated December 19, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



December 19, 2013



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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<b>Federal Grantor/ Pass-Through Grantor/ Program</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Agriculture</b>			
<u>Passed through the State Department of Elementary &amp; Secondary Education:</u>			
<i>Child Nutrition Cluster</i>			
School Breakfast Program - Cash Assistance	10.553	09-308	\$ 209,020
National School Lunch Program - Cash Assistance	10.555	09-308	953,849
National School Lunch Program - Non-Cash Assistance (Commodities)	10.555	09-308	188,265
Special Milk Program for Children	10.556	09-308	1,041
Fresh Fruit and Vegetable Program	10.582	09-308	28,408
Total U.S. Department of Agriculture			1,380,583
<b>U.S. Department of Housing and Urban Development</b>			
<u>Direct Program:</u>			
Community Development Block Grant	14.218	Not Applicable	1,171,394
<b>U.S. Department of Justice</b>			
<u>Passed through the State Executive Office of Public Safety:</u>			
Edward Byrne Memorial Justice Assistance Grant	16.738	Not available	7,922
<b>Institute of Museum and Library Services</b>			
<u>Passed through the State Library Board of Commissioners:</u>			
Library Services and Technology Grant	45.310	Not available	3,280
<b>U.S. Department of Education</b>			
<u>Direct Program:</u>			
Physical Education Grant	84.215F	Not Applicable	341,949
<u>Passed through the State Department of Elementary &amp; Secondary Education:</u>			
<i>Title I, Part A Cluster</i>			
Title I Distribution (fiscal year 2012)	84.010	305-073-2-0308-M	110,292
Title I Distribution (fiscal year 2013)		0305-000553-2013-0308	386,053
Title I School Support (fiscal year 2012)	84.010	323-063-2-0308-M	6,548
Title I School Support (fiscal year 2013)		323-014-3-0308-N	17,422
<i>Special Education Cluster</i>			
SPED 94-142 Allocation (fiscal year 2012)	84.027	240-131-2-0308-M	244,986
SPED 94-142 Allocation (fiscal year 2013)	84.027	240-305-3-0308-N	1,280,542
SPED Program Improvement (fiscal year 2012)	84.027	274-279-2-0308-M	12,839
SPED Program Improvement (fiscal year 2013)	84.027	274-233-3-0308-N	30,012
SPED Early Childhood Program Improvement (fiscal year 2013)	84.173	760-049-1-0308-L	4,675
<u>Passed through the State Department of Early Education and Care:</u>			
SPED Early Childhood Allocation (fiscal year 2012)	84.173	26212WALTHAMPUBLIC	14,554
SPED Early Childhood Allocation (fiscal year 2013)	84.173	26213WALTHAMPUBLIC	49,170

(continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<b>Federal Grantor/ Pass-Through Grantor/ Program</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Education (continued)</b>			
<u>Passed through the State Department of Elementary &amp; Secondary Education:</u>			
Carl Perkins Occupational Education (fiscal year 2012)	84.048	400-025-2-0308-M	4,670
Carl Perkins Occupational Education (fiscal year 2013)	84.048	400-065-3-0308-N	36,292
Education for Homeless Children & Youth (fiscal year 2012)	84.196	310-013-2-0308-M	266
Education for Homeless Children & Youth (fiscal year 2013)	84.196	310-020-3-0308-N	17,429
Even Start State Educational Agencies (fiscal year 2012)	84.213	304-003-2-0308-M	19,735
Title III - English Language Acquisition (fiscal year 2012)	84.365	180-024-2-0308-M	64,594
Title III - English Language Acquisition (fiscal year 2013)	84.365	180-076-3-0308-N	26,658
Title IIA - Improving Teacher Quality (fiscal year 2012)	84.367	140-244-2-0308-M	107,120
Title IIA - Improving Teacher Quality (fiscal year 2013)	84.367	0140-002906-2013-0308	138,245
Title IIA - DSAC Targeted Assistance Grant (fiscal year 2012)	84.367	143-037-2-0308-M	24,033
ARRA - Race to the Top (fiscal year 2012)	84.395	201-199-2-0308-M	15,504
ARRA - Race to the Top (fiscal year 2013)	84.395	201-000387-2013-0308	144,816
ARRA - Education Jobs Grant (fiscal year 2013)	84.410	206-026-3-0308-N	7,651
Total U.S. Department of Education			<u>3,106,055</u>
<b>U.S. Department of Health and Human Services</b>			
<u>Passed through the State Executive Office of Health and Human Services:</u>			
School-Based Medicaid Reimbursement Program	93.778	110030884	<u>131,116</u>
<b>U.S. Department of Homeland Security</b>			
<u>Passed through the State Office of Emergency Management:</u>			
Public Assistance Grants	97.036	CTFEMA4051WALTH	25,180
Emergency Management Performance Grants	97.042	FY11EMPG090000WALTH	<u>3,650</u>
Total U.S. Department of Homeland Security			<u>28,830</u>
Total			<u>\$ 5,829,180</u>
			(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 modified 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 National School Lunch Program – Non-Cash Assistance (Commodities) 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, Special Milk Program for Children, and Fresh Fruit and Vegetable Program 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, 2013:

Program Description	CFDA Number	Amount
Community Development Block Grant	14.218	\$ 210,304

**A. Summary of Auditors' Results****Financial Statements**

Type of auditors' report issued:

Unmodified

Internal Control over Financial Reporting:

- Material weakness(es) identified?

\_\_\_\_\_ Yes   X   No

- Significant deficiency(ies) identified?

\_\_\_\_\_ Yes   X   No

Noncompliance material to the financial statements noted?

\_\_\_\_\_ Yes   X   No

**Federal Awards**

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   No

Type of auditors' report on compliance for major programs:

Unmodified

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

\_\_\_\_\_ Yes   X   No

**Identification of Major Programs:**

Name of federal program or cluster	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
Physical Education Grant	84.215F
<i>Title I, Part A Cluster</i>	
Title I Distribution	84.010
Title I School Support	84.010
<i>Special Education Cluster</i>	
SPED 94-142 Allocation	84.027
SPED Program Improvement	84.027
SPED Early Childhood Program Improvement	84.173
SPED Early Childhood Allocation	84.173

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as a low-risk auditee?

\_\_\_\_\_ Yes   X   No

**B. Findings – Financial Statement Audit**

None

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

None

**D. Summary of Prior Audit Findings****FINANCIAL STATEMENT AUDIT*****Material Weaknesses in the Internal Control over Financial Reporting*****12-1 Health Insurance Costs Appropriated in the General Fund**

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

*Current Status:* This finding has been resolved.

**12-2 Direct Entries to Fund Balance**

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

*Current Status:* This finding has been resolved.

**12-3 Capital Assets**

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

1. The City did not perform a complete annual physical inventory of its capital assets to reconcile with its perpetual inventory records.
2. The City did 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 were recorded directly in the respective enterprise fund. These capital asset balances had not been updated for many years.

*Current Status:* This finding has been resolved for item 2 above. Item 1 has not been resolved. However, this is no longer considered a material weakness, and has been moved to the management letter.

**12-4 Capital Projects**

*Condition:* 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 was intended to account for governmental funds capital projects only.

*Current Status:* This finding has been resolved.

**12-5 Compensated Absences**

*Condition:* The City calculated its compensated absence (e.g., earned but unused sick and vacation time) liability using estimated amounts that were 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 did not perform a retrospective analysis of its liability estimate.

*Current Status:* This finding has been resolved.

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

*Current Status:* This finding has been resolved.

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

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

*Current Status:* This finding has been resolved.

***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:* 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.

*Current Status:* This finding has been resolved.

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

*Condition:* 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.

*Current Status:* This finding has been resolved.

## **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:* The City did not comply with the reporting compliance requirements of the program related to sub-recipients.

*Current Status:* This finding has been resolved.

### ***Noncompliance Related to Major Programs***

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

*Condition:* 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.

*Current Status:* This finding has been resolved.

## **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:* The City did not obtain written contracts for all vendors providing professional services to the program.

*Current Status:* This finding has been resolved.

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

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



*Current Status:* This finding has been resolved.

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

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

*Current Status:* This finding has been resolved.

#### ***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:* 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.

*Current Status:* This finding has been resolved.

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

*Condition:* 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.

*Current Status:* This finding has been resolved.

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

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

*Current Status:* This finding has been resolved.

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

*Current Status:* This finding has been resolved.