

FINANCIAL AUDIT ADVISORY COMMITTEE

Agenda

Thursday, December 5, 2013 @ 8:15 AM

Agenda Items

- Exit conference with the external auditor - presentation of 06/30/2013 audited CAFR, draft federal single audit, management letter recommendations and conclusions.
- Update on the draft Request for Proposals for an external auditor (current contract ends in December 2013)
- Upcoming Committee and Sub-committee dates

Draft - November 27, 2013

CITY OF NEWTON, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CITY OF NEWTON, 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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**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 Board of Aldermen and Mayor
City of Newton, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newton, Massachusetts, as of and for the fiscal year ended June 30, 2013 (except for the Newton Contributory Retirement System and the Newton Commonwealth Foundation, Inc., which are 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 Newton, Massachusetts' basic financial statements, and have issued our report thereon dated November 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Newton, 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 Newton, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Newton, 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 Newton, 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.

November 25, 2013

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

To the Honorable Board of Aldermen and Mayor
City of Newton, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited the City of Newton, 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 Newton, Massachusetts' major federal programs for the fiscal year ended June 30, 2013. The City of Newton, 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 Newton, 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 Newton, 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 Newton, Massachusetts' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Newton, 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 Newton, 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 Newton, 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 Newton, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newton, Massachusetts, as of and for the fiscal year ended June 30, 2013 (except for the Newton Contributory Retirement System and the Newton Commonwealth Foundation, Inc., which are 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 Newton, Massachusetts' basic financial statements. We issued our report thereon dated November 25, 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.

November 25, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<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 Elementary & Secondary Education:</u>			
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553	09-207	\$ 30,255
National School Lunch Program	10.555	09-207	441,764
Commodity Supplemental Food Program	10.565	09-207	<u>139,853</u>
Total U.S. Department of Agriculture			<u>611,872</u>
U.S. Department of Housing and Urban Development			
<u>Direct Programs:</u>			
<i>CDBG - Entitlement Grants Cluster</i>			
Community Development Block Grant	14.218	Not Applicable	1,815,892
Community Development Block Grant Recovery (CDBG-R)	14.253	Not Applicable	1,878
Emergency Shelter Grants Program	14.231	Not Applicable	141,083
HOME Investment Partnerships Program	14.239	Not Applicable	696,808
Continuum of Care Program	14.267	Not Applicable	<u>30,463</u>
Total U.S. Department of Housing and Urban Development			<u>2,686,124</u>
U.S. Department of Justice			
<u>Direct Programs:</u>			
DEA Support Overtime Reimbursements	16.000	Not Applicable	58,117
Juvenile Mentoring Program	16.726	Not Applicable	100,025
DEA Asset Forfeitures	16.922	Not Applicable	19,341
<u>Passed through the State Executive Office of Public Safety:</u>			
Enforcing Underage Drinking Laws Program	16.727	Not Available	<u>971</u>
Total U.S. Department of Justice			<u>178,454</u>
U.S. Department of Transportation			
<u>Direct Programs:</u>			
Highway Planning and Construction	20.205	Not Applicable	1,043
ARRA - Highway Planning and Construction	20.205	Not Applicable	<u>35,200</u>
Total U.S. Department of Transportation			<u>36,243</u>
Institute of Museum and Library Services			
<u>Direct Program:</u>			
Museum for America Grant	45.301	Not Applicable	<u>1,306</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<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			
<u>Direct Programs:</u>			
Safe Schools/Healthy Students Grant	84.184L	Not Applicable	647,423
<i>Fund for Improvement of Education</i>			
Physical Education Grant	84.215F	Not Applicable	459,733
Teaching American History Grant	84.215X	Not Applicable	329,901
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
<i>Title I, Part A Cluster</i>			
Title I Distribution (fiscal year 2012)	84.010	305-124-0207-M	109,067
Title I Distribution (fiscal year 2013)	84.010	0305-000537-2013-0207	259,019
Title I Carryover Grant (fiscal year 2012)	84.010	305-458-2-0207-M	17,068
Title I Carryover Grant (fiscal year 2013)	84.010	305-121-3-0207-N	3,888
<i>Special Education Cluster</i>			
SPED 94-142 Allocation (fiscal year 2012)	84.027	240-162-2-0207-M	289,785
SPED 94-142 Allocation (fiscal year 2013)	84.027	240-178-3-0207-N	2,689,640
SPED Tiered Instruction (fiscal year 2012)	84.027	257-026-2-0207-M	12,898
SPED Program Improvement (fiscal year 2012)	84.027	274-132-2-0207-M	18,347
SPED Program Improvement (fiscal year 2013)	84.027	274-108-3-0207-N	77,611
SPED Early Childhood Program Improvement (fiscal year 2013)	84.173	298-062-3-0207-N	4,507
<u>Passed through the State Department of Early Education and Care:</u>			
SPED Early Childhood Allocation (fiscal year 2012)	84.173	26212 NEWTONPUBLICSCH	4,234
SPED Early Childhood Allocation (fiscal year 2013)	84.173	26213 NEWTONPUBLICSCH	66,596
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Carl Perkins Occupational Education (fiscal year 2012)	84.048	400-031-2-0207-M	9,249
Carl Perkins Occupational Education (fiscal year 2013)	84.048	400-031-2-0207-M	72,497
Safe and Drug-Free Schools (fiscal year 2012)	84.186	331-002-2-0207-M	12,982
Title III - English Language Acquisition (fiscal year 2012)	84.365	180-012-2-0207-M	68,779
Title III - English Language Acquisition (fiscal year 2013)	84.365	180-027-3-0207-N	65,775
Title IIA - Improving Teacher Quality (fiscal year 2012)	84.367	140-154-2-0207-M	40,842
Title IIA - Improving Teacher Quality (fiscal year 2013)	84.367	140-006478-2013-0207	191,307
ARRA - Race to the Top Grant	84.395	201-350-3-0207-N	74,368
<u>Passed through the State Department of Early Education and Care:</u>			
ARRA - Race to the Top Evidence Based Literacy Grant	84.395	RTTT13011642NEWTON	7,500
Total U.S. Department of Education			<u>5,533,016</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<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 Health and Human Services			
<u>Direct Programs:</u>			
Food and Drug Administration Research Grant <u>Passed through the State Executive Office of Health and Human Services:</u>	93.103	Not Applicable	51,917
Medical Reserve Corps Grant Program	93.008	Not Available	3,000
School-Based Medicaid Reimbursement Program	93.778	1951726	261,306
<u>Passed through the State Department of Fire Services:</u>			
DFS Bioterrorism First Responder Liason Grants	93.283	DFS 2008BHAZMATRESPGRANT	<u>16,748</u>
Total U.S. Department of Health and Human Services			<u>332,971</u>
U.S. Department of Homeland Security			
<u>Direct Program:</u>			
Assistance to Firefighters Grant	97.044	Not Applicable	845
<u>Passed through the City of Beverly, Massachusetts:</u>			
State Homeland Security Training Grant	97.073	Not available	5,386
<u>Passed through the State Emergency Management Agency:</u>			
Public Assistance Grants	97.036	CDA CTFEMA4051NEWTON00465	128,577
Public Assistance Grants	97.036	CDA CTFEMA3330NEWTON00177	125,808
<u>Passed through the State Executive Office of Public Safety:</u>			
Buffer Zone Protection Grant	97.078	Not Available	<u>19,279</u>
Total U.S. Department of Homeland Security			<u>279,895</u>
Total			<u>\$ 9,659,881</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 Newton, Massachusetts and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 and National School Lunch 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 represent federal reimbursements.

Note 5 - Sub-recipients

The City of Newton, 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	\$ 286,730
Emergency Shelter Grants Program	14.231	141,083
Safe Schools/Healthy Students Grant	84.184L	67,732
Total		\$ 495,545

A. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal Control over Financial Reporting:

- Material weakness(es) identified? Yes No X
- Significant deficiency(ies) identified? Yes X No

Noncompliance material to the financial statements noted? Yes No X

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No X
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X No

Type of auditors' report on compliance for major programs: Unqualified

Were any findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes No X

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
<i>CDBG - Entitlement Grants Cluster</i>	
Community Development Block Grant	14.218
Community Development Block Grant Recovery (CDBG-R)	14.253
HOME Investment Partnerships Program	14.239
Safe Schools/Healthy Students Grant	84.184L
<i>Fund for Improvement of Education</i>	
Physical Education Grant	84.215F
Teaching American History Grant	84.215X
<i>Special Education Cluster</i>	
SPED 94-142 Allocation	84.027
SPED Tiered Instruction	84.027
SPED Program Improvement	84.027
SPED Early Childhood Program Improvement	84.173
SPED Early Childhood Allocation	84.173
Title IIA - Improving Teacher Quality	84.367

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as a low-risk auditee? Yes No X

B. Findings – Financial Statement Audit

None.

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

None.

D. Summary of Prior Audit Findings**MAJOR FEDERAL AWARD PROGRAMS AUDIT****Department of Agriculture***Material Weakness in the Internal Control over Major Programs*

12-1 Child Nutrition Cluster – CFDA No.’s 10.553 and 10.555; 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.

Noncompliance Related to Major Programs

12-2 Child Nutrition Cluster – CFDA No.’s 10.553 and 10.555; Fiscal year ended June 30, 2012

Condition: One of the claims for reimbursement forms submitted to the DESE included inaccurate information. For the month of October 2011, the number of meals served, as reported to the DESE, did not agree to the detailed breakdown of school nutrition activity.

Current Status: This finding has been resolved.

12-3 Child Nutrition Cluster – CFDA No.’s 10.553 and 10.555; Fiscal year ended June 30, 2012

Condition: Four of the 60 student files tested were either missing the original applications filed or did not contain sufficient income documentation to support the eligibility statuses determined through the eligibility and verification summary processes.

Current Status: This finding has been resolved.

Department of Housing and Urban Development***Noncompliance Related to Major Programs***

12-4 HOME Investment Partnerships Program – CFDA No. 14.239; Fiscal year ended June 30, 2012

Condition: Program management did not enter the program income into the U.S. Department of Housing and Urban Development’s Integrated Disbursement and Information System (IDIS) timely. As a result, there were instances where the program income was not applied against the grant expenses prior to drawing down additional Federal funds.

Current Status: This finding has been resolved.

Department of Justice***Material Weakness in the Internal Control over Major Programs***

12-5 Public Safety Partnership and Community Policing Grants – CFDA No. 16.710;
Fiscal year ended June 30, 2012

Condition: The City did not have internal controls in place to comply with the procurement, suspension and debarment compliance requirements related to the program.

Current Status: The City did not procure any goods or services related to the grant program in fiscal year 2013, as the program ended in fiscal year 2012.

Noncompliance Related to Major Programs

12-6 Public Safety Partnership and Community Policing Grants – CFDA No. 16.710;
Fiscal year ended June 30, 2012

Condition: Salaries charged to the grant for several employees working on grant related projects were not supported by timesheets.

Current Status: The City did not charge any salaries to the grant during fiscal year 2013, as the grant program ended in fiscal year 2012.

Department of Homeland Security***Material Weakness in the Internal Control over Major Programs***

12-7 Public Assistance Grants – CFDA No. 97.036; Fiscal year ended June 30, 2012

Condition: The City did not have internal controls in place to comply with the procurement, suspension and debarment compliance requirements related to the program.

Current Status: This finding has been resolved.

Department of Energy***Material Weaknesses in the Internal Control over Major Programs***

- 12-8 ARRA - Energy Efficiency and Conservation Block Grant Program - CFDA No. 81.128;
Fiscal year ended June 30, 2012

Condition: The City did not maintain copies of the payment requests submitted to the Department of Energy (DOE) or documentation supporting them.

Current Status: The City did not submit any payment requests to the DOE during fiscal year 2013, as the grant program ended in fiscal year 2012.

- 12-9 ARRA - Energy Efficiency and Conservation Block Grant Program - CFDA No. 81.128;
Fiscal year ended June 30, 2012

Condition: The City did not comply with the reporting compliance requirements related to the program.

Current Status: The City was not required to prepare or submit any reports to the DOE during fiscal year 2013, as the grant program ended in fiscal year 2012.

- 12-10 ARRA - Energy Efficiency and Conservation Block Grant Program - CFDA No. 81.128;
Fiscal year ended June 30, 2012

Condition: The City did not comply with the equipment and real property management compliance requirements related to the program.

Current Status: The City did not purchase any equipment or real property during fiscal year 2013, as the grant program ended in fiscal year 2012.

- 12-11 ARRA - Energy Efficiency and Conservation Block Grant Program - CFDA No. 81.128;
Fiscal year ended June 30, 2012

Condition: The City did not have internal controls in place to comply with the procurement, suspension and debarment compliance requirements related to the program.

Current Status: The City did not procure any goods or services related to the grant program in fiscal year 2013, as the program ended in fiscal year 2012.

Noncompliance Related to Major Programs

- 12-12 ARRA - Energy Efficiency and Conservation Block Grant Program - CFDA No. 81.128;
Fiscal year ended June 30, 2012

Condition: Program management did not maintain copies of the payment requests submitted to the DOE or documentation supporting them.

Current Status: The City did not submit any payment requests to the DOE during fiscal year 2013, as the grant program ended in fiscal year 2012.

- 12-13 ARRA - Energy Efficiency and Conservation Block Grant Program - CFDA No. 81.128;
Fiscal year ended June 30, 2012

Condition: The financial reports submitted to the DOE were not completed based upon expenditures processed and recorded in the City's general ledger and, therefore, did not represent an accurate, current and complete disclosure of financial results.

Current Status: The City was not required to prepare or submit any reports to the DOE during fiscal year 2013, as the grant program ended in fiscal year 2012.

- 12-14 ARRA - Energy Efficiency and Conservation Block Grant Program - CFDA No. 81.128;
Fiscal year ended June 30, 2012

Condition: The equipment purchased with the federal grant funds was not labeled as federally funded equipment. Additionally, the City did not perform a physical inventory during the year.

Current Status: The City did not purchase any equipment or real property during fiscal year 2013, as the grant program ended in fiscal year 2012.

Draft - November 27, 2013

CITY OF NEWTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013

Draft - November 27, 2013

Draft – November 27, 2013

To the Honorable Board of Aldermen and Mayor
City of Newton, Massachusetts

In planning and performing our audit of the financial statements of the City of Newton, Massachusetts (City) as of and for the year ended June 30, 2013, 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, we considered the City's internal control over financial reporting (internal control) 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We also want to make you aware of a recently issued accounting standard that will significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated November 25, 2013, on the financial statements of the City.

The City's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Audit Committee, the Board of Aldermen, Mayor, and others within the organization and should not be used by anyone other than these specified parties.

November 25, 2013

Draft - November 27, 2013

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Draft – November 27, 2013

CITY OF NEWTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013

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Draft - November 27, 2013

Prior Year Comments - Resolved

Draft – November 27, 2013

Water and Sewer Billings

Last year's management letter communicated that some water and sewer bills continued to be based on estimates and false reads resulting from a faltering metering system that was in the process of being replaced. Accordingly, we recommended the new metering system be implemented as soon as possible.

The new metering system has been installed, although many of the transponders associated with the initial installation had to be replaced. As a result, we consider this comment resolved.

City-Wide Grants Administrator

Last year's management letter communicated that, except for the City's School and Planning and Development Departments, we believed the City's grants administration structure placed the City at risk in the administration and adherence to compliance requirements of state and federal grants. Accordingly, we recommended the City considered employing a City-wide Grants Administrator.

The City, given the fact that funding for all federal stimulus (ARRA) programs has expired and likely further reductions in federal spending, does not believe there will be sufficient federal grant activity outside the Newton Public Schools and Planning and Community Development Department to support a full time position devoted to federal grants administration. However, the City indicated it would evaluate other options for enhancing the level of control and oversight over federal grant programs in departments other than the Newton Public Schools and Planning and Community Development Department.

Parks and Recreation

Last year's management letter communicated the following deficiencies regarding the cash receipt activities of the Parks and Recreation Department:

1. No log was maintained at Gath Pool and Crystal Lake that identified the starting and ending bracelet number sold for each day. In addition, no documentation was maintained that reconciled the number of daily bracelets sold to the actual cash receipts collected.
2. The Schedule of Payments to City Treasurer (Schedule) submitted by the Department did not contain the signature of the preparer or reviewer of the document.
3. There was no documentation supporting the review/reconciliation of the deposit made to the bank to the summary report of receipts entered into the Department's internal database (SportsMan).

During fiscal year 2013 controls were implemented to resolve the deficiencies identified above.

Draft – November 27, 2013

Service Organization Controls

Last year's management letter communicated that the City, like many local governments in Massachusetts, engage third-party service providers (service organizations) to process certain financial transactions (i.e., Deputy Tax Collector). Accordingly, we recommended the City identify each service organization utilized and request the applicable *Service Organization Control* report (annually). We also recommended that all service organization contracts include a requirement to obtain the appropriate SOC report (annually).

During fiscal year 2013, requests were made to obtain the applicable SOC reports and consideration has been given to including a contractual requirement (where applicable) to obtain a SOC report annually.

Old Outstanding Checks

Last year's management letter communicated that the vendor and payroll outstanding checklists maintained by the Treasurer include many checks greater than three (3) months old totaling approximately \$214,000. Accordingly, we recommended the Treasurer/Collector's office implement monthly procedures to investigate and resolve outstanding checks greater than three (3) months old.

During fiscal year 2013, procedures were implemented to effectively manage checks greater than 3 months old. At June 30, 2013, vendor and payroll outstanding checks greater than 3 months old totaled approximately \$21,000.

Unclaimed Checks

Last year's management letter communicated that the unclaimed check amount (@ \$500,000) reported on the general ledger was not supported by a current list of check numbers, check dates, payee names, address and related amounts. Accordingly, we recommended the Treasurer/Collector's office investigate and identify the applicable information that reconciled to the general ledger. We also recommended that procedures be implemented to investigate and resolve the unclaimed check amounts in accordance with Massachusetts Abandoned Property Laws.

During fiscal year 2013, procedures were implemented to accumulate the supporting documentation and the City adopted Massachusetts General Law Chapter 200, Section 9A, allowing the City to retain unclaimed property after following the required process.

Draft – November 27, 2013

Prior Year Comments – Partially Resolved

Draft – November 27, 2013

Student Activity Funds

Comment

The City maintains student activity funds at many of its schools. Massachusetts General Laws (MGL) Chapter 71, Section 47, which establishes various guidelines related to student activity funds, states the following:

“There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education.”

Internally performed audits and/or agreed upon procedures are considered acceptable in complying with the related requirements of MGL Chapter 71, Section 47. However, the Massachusetts Association of School Business Officials’ (MASBO) *Student Activity Accounts Guidelines for Massachusetts School Districts* recommends an independent audit firm conduct the audits and/or agreed upon procedures at least once every three (3) years.

Based on our discussions with School Department personnel, agreed upon procedures have been internally performed on the Newton North and Newton South High Schools’ and Day and Brown Middle Schools’ student activity funds. However, there is no formal documentation of the procedures performed and the results of such procedures.

Recommendation

We recommend the School Department formally document the procedures and related results of the annual internal student activity funds’ agreed upon procedures.

We recommend the City consider the MASBO recommendation to have an independent audit firm conduct the student activity fund audits and/or agreed upon procedures at least once every three (3) years.

Management’s Response

Regarding the first of the two recommendations above, the district plans to continue annual internal audits based on the above-mentioned agreed upon procedures according to an annual schedule as follows: both of the high schools, two of the four middle schools, and one third of the nine elementary schools (nine of fifteen elementary schools maintain student activity accounts while the balance are through the PTO). The district will produce and maintain on file documentation for all site visits similar to what is done for the high schools.

Regarding the second of the two recommendations above, the use of an independent audit firm at least once every three (3) years would require operating budget funding by the School Committee during the annual budget process.

Draft – November 27, 2013

Disaster Recovery Plan

Comment

Our prior year management letter identified that the City did not have the hardware required to access the detailed accounts receivable data (MUNIS) in the event of a disaster. During fiscal year 2013, the hardware was purchased but is not currently offsite. In addition, the City is currently transitioning to a new disaster recovery plan.

Recommendation

We recommend the City complete the transition to the new disaster recovery plan during fiscal year 2014.

Management's Response

Over this past year the Information Technology Department purchased a Storage Area Network. Of its primary goals is to house our financial systems.

Our SAN is ready for the new version of Finance Plus and installation services by Sungard Pentamation have begun. After trials and testing, we expect to cut over in the weeks after January 1, 2014.

Once Finance Plus is up and running we will move Munis into the fold as well.

In September we purchased a disk deduplication system. This system is our backup system for the virtual servers running on our SAN. Infinitely scalable, this system will reduce backup time, enable us to retain more snapshots of the system and its data, and greatly enhance data restoration opportunities.

In October we awarded an Invitation to Bid for a Disaster Recovery or Business Continuity system. This system will be connected by city owned fiber from City Hall to the Education Center (100 Walnut St.). It will be a mirror version of our Finance Plus and Munis data.

We are also configuring our disk deduplication system. This is our nightly backup system for the financials once they are brought onto the SAN. This system will be located in City Hall but not in the data center. We are considering a secure wiring closet with proper ventilation in our attic.

Draft - November 27, 2013

Prior Year Comments - Unresolved

Draft – November 27, 2013

Police Details

Comment

Consistent with the prior year, the City has approximately \$28,000 of police detail accounts receivables that are greater than one-year old. The receivables greater than one-year old date as far back as May 2008. For financial reporting purposes, the City considers these amounts uncollectible.

A formal policy that addresses the actual “write-off” of uncollectible police detail accounts receivable would assist the City in maintaining a fair and accurate accounts receivable balance and, in turn, identify amounts that must be funded from the General Fund timely.

In addition, the Police Department utilizes an internally developed access database to account for its police detail billings and collections. We believe the use of software specifically designed for billing and collection would provide clearer audit trails and the ability to produce billing and collection reports effectively and efficiently.

Recommendation

We recommend the City develop and implement a formal policy regarding uncollectible police detail accounts receivable and the “write-off” of such receivable balances.

We recommend the City consider purchasing “off the shelf” software to maintain its police detail billing and collection activities.

Management’s Response

The Newton Police Department routinely refers delinquent police detail bills to the City Law Department for collection. These bills are either collected through the district court or recommended for write-off by the City Solicitor. Unpaid police detail bills are only legally written off when in the opinion of the Solicitor, the bill is uncollectible or the cost of legal action to enforce collection exceeds the value of the outstanding bill.

The City will continue to evaluate the cost/benefit of replacing the existing police detail assignment/billing/collection system with a replacement system.

Draft – November 27, 2013

Risk Assessment and Monitoring

Comment

When internal controls are *initially* implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment (which includes fraud risk assessment), is one element of internal control.

The risk assessment should be performed by management-level employees who have extensive knowledge of the City's operations. Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the City's operations, its environment, and its processes. The risk assessment process should consider the City's vulnerability to misappropriation of assets. It should also address operations that involve heightened levels of risk. When conducting the assessment, the following questions should be considered:

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?
- What prior internal control issues could still continue to be problematic?

Once the areas vulnerable to risks have been identified, a review of the City's systems, procedures, and existing controls related to these areas should be conducted. The City should consider what additional controls (if any) need to be implemented to reduce risk.

After risk has been assessed, periodic monitoring of the identified risk areas must be performed in order to evaluate the controls that have been implemented to mitigate the risks. Since control-related policies and procedures tend to deteriorate over time, the monitoring process ensures that controls are fully operational and effective.

Recommendation

We recommend management develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the City's financial policies and procedures manual.

We recommend management develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

Management's Response

For response by Audit Committee.

Draft – November 27, 2013

Financial Policies and Procedures Manual

Comment

Although the City has adopted top level financial policies and has certain limited processes documented, we believe that preparation of a formal policies and procedures manual would improve and standardize the City's financial policies and procedures. Without formalized written policies and procedures, the City is inherently subject to everyday inconsistencies in its operations. It is also difficult to measure performance and efficiencies without a baseline. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them.

Such a manual should include policies and procedures relative to all financial functions and processes, including, but not limited to, the following:

- Cash receipts
- Cash disbursements
 - Payroll
 - Vendor
- Procurement
- Administration of grants
- Administration of student activity funds
- Personnel (i.e., hiring, payroll and related changes, etc.)
- Month-end and year-end closing procedures

The manual should also clearly define the objectives, responsibilities and authorizations for all employees/job positions.

The use of written policies, procedures, and job descriptions in conjunction with specific assignment of responsibilities would increase supervisory personnel's effectiveness. Such written documents would decrease the time spent on supervision of clerical personnel and in attempts to define job responsibilities on each occasion of employee turnover.

Recommendation

We recommend the City develop and implement a financial policies and procedures manual.

Management's Response

The Comptroller has distributed and posted the following policies on his page of the City web site:

- Fiscal year-end closing guide
- Departmental cash receipt collection and custody policy
- Payroll certification guide
- Payable submission guide
- Petty cash policy
- Credit card procurement policy

Draft – November 27, 2013

During the next fiscal year is expected that a grants administration guide for programs other than education and community development grants, will be prepared, distributed, and posted on the Comptroller's page of the City web site. The month end closing check list will also be formalized and posted on the City web site.

The Chief Procurement Officer has distributed and posted on his page of the City intranet a comprehensive procurement policy guide.

The Human Resources Department has posted the following policies on their page of the City web site:

- Domestic Violence policy
- Sexual Harassment policy
- Telecommunications policy
- City vehicle use policy
- Whistleblower policy

Draft - November 27, 2013

Current Year Comments

Draft – November 27, 2013

Departmental and Other Accounts Receivable

Comment

Procedures are not in place to reconcile departmental and other detailed accounts receivable balances (maintained at the individual department level) to the general ledger monthly. Effective internal controls require monthly reconciliations of detailed accounts receivable balances to the general ledger. Failure to perform these tasks timely inhibits the safeguarding of assets and does not provide for accurate and timely financial reporting.

Recommendation

We recommend formal procedures be implemented to reconcile departmental and other detailed accounts receivable balances to the general ledger no later than 30 days after the end of the previous month. We also recommend the applicable department head and Comptroller approve (e.g., sign off) each accounts receivable reconciliation.

Management's Response

The Comptroller and Treasurer's Offices have a formal process for regular monthly reconciliation of all real estate and personal property taxes; auto and boat excise taxes; community preservation surcharges; and water, sewer, and storm-water management use charges. The Comptroller also maintains detailed receivable records on major state grants such as the Chapter 90 Highway program; the Mass Works Highway improvement program; the Veterans Benefit reimbursement program; and the Massachusetts School Building Authority school construction grant program, and for all major rental agreements involving City owed real and personal property.

Detailed receivable records for infrastructure betterments; police private duty detail assignments; water and sewer payment plans and certain charges such as school lunch fees and rental of school buildings are maintained by individual department and transactional activity is generally only recorded on the general ledger for reported purposes at fiscal year-end only.

The Comptroller is in agreement that it would be beneficial to enhance the level of regular general ledger oversight over major receivables that are not under the oversight of the Treasurer. Priority will be directed to infrastructure betterments; water and sewer payment plans; and police detail accounts during fiscal year 2014.

Draft – November 27, 2013

F.A. Day Middle School and Angier Elementary School

Comment

We evaluated the systems of internal control surrounding the student activity funds cash receipts processes at the F.A. Day Middle School and Angier Elementary School and identified the following deficiencies:

F.A. Day Middle School

- Cash receipts collected by teachers and activity advisors are submitted to the Bursars Office in an envelope and not accompanied by a standard turnover form. The use of a standard turnover form would strengthen internal controls by identifying, among other things, the purpose of the receipt, the amount and the person turning the money over.
- Reconciliations of the total student activity funds to the general ledger and bank account are not signed by the preparer or reviewer. The lack of signed reconciliations creates an inadequate audit trail. In addition, the lack of a reviewer signature does not provide evidence that the reconciliations were reviewed for appropriateness, which is a deficiency in internal controls over cash receipts.

Angier Elementary School

- Cash receipts collected for field trips are not typically submitted to the Executive Assistant for deposit until every student has provided payment. As a result, cash receipts collected are not consistently deposited timely.
- There is no formal reconciliation of the total student activity fund balances to the general ledger. The lack of a formal reconciliation does not provide assurance that activities are posted correctly and balances are appropriate.

Recommendation

We recommend the following:

F.A. Day Middle School

- The use of a standard cash receipts turnover form is used by student activity fund advisors and teachers when submitting collections to the Bursars Office. Such a form should include, at a minimum, name, date, amount, trip and trip date.
- Procedures be implemented requiring the supervisory review of all reconciliations and that the preparer and reviewer sign all reconciliations.

Angier Elementary School

- That cash receipts collected be submitted to the Executive Assistant daily and that deposits be made no later than 48 hours after receipt.
- Procedures are implemented to perform monthly reconciliations of the total student activity fund balances to the general ledger. In addition, such reconciliations must include the signature of the preparer and reviewer.

Draft – November 27, 2013

Management's Response

F.A. Day Middle School

Regarding the first recommendation, the school bursar in conjunction with the school principal is currently in the process of implementing a standard receipts turnover form which includes the name of the person handing in the deposit, deposit date, breakdown of dollar amount of the deposit including cash, coin and/or checks, and the purpose of the deposit. The standard receipts turnover form will be available on the school's website. The goal is to have the form in full use before September 2014.

Regarding the second recommendation, the Deputy Superintendent/Chief Administrative Officer conducts a supervisory review of student activity reconciliations which are prepared by the Director of Finance in conjunction with the school bursar. After the review is complete, electronic copies of the final documents are kept on file at the Education Center. As per the auditor's recommendation, the signature of the preparer and the reviewer will be added in FY14 and beyond.

Angier Elementary School

Regarding the first recommendation, the principal of Angier School requested in November 2013 that all field trip monies be paid via check only; the school no longer accepts cash, although only 5% of receipts have typically been in cash. Payments for any given field trip are received over the course of one school week. During this week, checks (and formerly cash) are kept in a locked cabinet in the Executive Secretary's Office until they are deposited within one week. The office is also locked after school hours. This system is considered reasonable by the school principal and by the Deputy Superintendent/Chief Administrative Officer.

Regarding the second recommendation, due to the relatively low volume of transactions over the course of the school year as compared to the secondary schools, quarterly reconciliations are performed by the Director of Finance between the general ledger, deposits, invoices and the Angier Field Trip Cost Sheets; nearly 100% of revenues and expenses are for field trips. Reconciliations may also be done at the request of the school's Executive Secretary. Reconciliations are subject to review by the Deputy Superintendent/Chief Administrative Officer. Electronic copies of general ledger reconciliations are kept on file at the Education Center. As per the auditor's recommendation, the signature of the preparer and the reviewer will be added in FY14 and beyond.

Draft – November 27, 2013

Informational Comment

Draft – November 27, 2013

Pension Accounting and Financial Reporting

Comment

In June of 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which revises and establishes new financial reporting requirements for governments that provide pension benefits to its employees and retirees.

The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the City will be required to recognize its long-term obligation for pension benefits as a liability in its government-wide financial statements. The implementation of this Statement will also:

- More comprehensively measure the annual costs of pension benefits
- Place conditions on the use of the discount rate used to measure the projected benefit payments to their actuarial present value
- Require the use of the “entry age” actuarial cost allocation method, with each period’s service cost determined by a level percentage of pay (referred to as attribution method)
- Expand pension related note disclosures
- Expand pension related required supplementary information disclosures

The requirements of this Statement will improve the decision-usefulness of pension information in governmental financial statements and will enhance the comparability of pension information between governmental entities.

Given the significance of the pension fund liability, the financial reporting impact under the new standard will significantly affect the City’s financial statements.

It should be noted that the implementation of GASB Statement No. 68 is strictly a financial reporting standard and does not constitute a state or federal mandate regarding the funding of the net pension obligation.

The City’s required implementation date of GASB Statement No. 68 is fiscal year 2015.

Recommendation

We recommend management familiarize itself with GASB Statement No. 68 to prepare for its implementation.

****DRAFT****
CITY OF NEWTON, MASSACHUSETTS
REQUEST FOR COMPETITIVE PROPOSALS
INDEPENDENT FINANCIAL AUDIT SERVICES
Fiscal Years 2014 through 2018

This Proposal is exempt from the requirements of Massachusetts General Laws Chapter 30B, Uniform Procurement Law

The City of Newton, Massachusetts invites qualified public accounting firms, licensed to practice in the Commonwealth of Massachusetts and with prior experience in the municipal financial statement audits of organizations similar to the City of Newton, to submit written fix-fee proposals to conduct the annual financial audit of the year-end Comprehensive Annual Financial Report; audit the City's federal awards; prepare a management letter with recommendations for cost-beneficial improvements in the City's financial reporting and controls over financial reporting ; and to perform agreed upon procedures related to the Newton Public School's End of Year Report for the next five fiscal years, in accordance with the specifications summarized below.

The quoted fee shall be all-inclusive for all required services. The City expects to award the contract to the public accounting firm that is most responsible and responsive to the City's requirements and proposes the most reasonable fee structure for the next five year period.

I INFORMATION FURNISHED TO PROPOSERS:

General Information

The City of Newton has a population of approximately 84,615; occupies a land area of approximately 18.33 square miles; and has a fiscal year 2014 operating budget of \$390.5 million (inclusive of the General Fund; Community Preservation Fund; Stormwater Management Fund; Sanitary Sewer Fund; and Water Fund).

The City is governed under a home-rule charter, which vests executive responsibility with a Mayor, who is elected for a (4) year term. The Mayor currently has two principal deputies – a Chief Financial Officer and a Chief Operating Officer. All Department heads except for the City Clerk/Clerk of the Board and the City Comptroller are appointed by, and serve at the pleasure of the Mayor. Legislative and oversight responsibilities are vested in a (24) member Board of Aldermen, who are elected for (2) year terms. The Board of Aldermen appoints the City Clerk/Clerk of the Board and City Comptroller for (2) year terms.

The senior financial management team of the City consists of the Chief Financial Officer; the Treasurer/Collector; the Director of Assessment Administration; the School Director of Finance; the Chief Procurement Officer; the Director of Financial Information Systems; and the City Comptroller. An (8) member Finance Committee of the Board of Aldermen serves as the principal financial oversight body, and is assisted by a separate Financial Audit Advisory Committee consisting of four members of the Board of Aldermen; one School Committee member; and four Newton residents with financial expertise.

For external financial reporting purposes the City currently reports on (3) major governmental funds and (16) non-major governmental funds; two enterprise funds; (4) internal service funds; and (13) fiduciary funds

In addition to the City, the reporting entity consists of a defined benefit Contributory Retirement System, which had net assets of \$254.2 million at December 31, 2012. A (5) member Retirement Board and two staff members administer the Retirement System. All System assets are invested with the Massachusetts Pension Reserve Investment Trust except for a small real estate limited partnership position and the System's temporarily idle cash, which is held in a separate MMDT account with the State Treasurer. The Board contracts for an annual actuarial valuation of the system's liabilities and strictly follows an approved funding schedule. The Retirement System administrator prepares monthly financial reports for the Retirement Board and the City Comptroller's Office prepares year-end external financial statements and notes for the Retirement System.

The City currently has two discretely presented component units of the reporting entity - the Newton Community Development Authority (formerly the Newton Redevelopment Authority); and the Newton Commonwealth Golf Foundation. The Newton Community Development Authority (NCDA) was created by Chapter 705 of the Acts of 1975 to develop housing programs for low and moderate income families, as well as elderly and handicapped residents of the City. At May 31, 2013, the Authority had assets of \$4.6 million, of which all but \$534,190 related to various housing development, housing rehabilitation, and economic development loans. Beginning in fiscal year 2011 all NCDA activity was brought onto the City's general ledger and is under the control of the City Comptroller. The audit firm will be expected to audit the NCDA as part of the City's audit. There is no requirement to issue a separate audit report.

The Newton Commonwealth Golf Foundation (NCGF) was established in 1982 for purposes of overseeing the administration of the Newton Commonwealth Golf Course. The NCGF contracts with a private management company for the operation and care of the golf course. Newton Commonwealth Golf Foundation financial records are maintained by the Treasurer of the NCGF and the NCGF contracts with a separate certified public accountant for the annual audit of the NCGF's financial statements.

The City has prepared a Comprehensive Annual Financial Report since 1998. The most recent audit of the City of Newton and its component units was for the fiscal year ended June 30, 2012. The public accounting firm of Sullivan, Rogers, and Company completed this audit and all annual audits since 2004. There are no qualifications to the audit opinion.

Description of Financial Records

All City accounting records except for parking ticket receivables are maintained in-house.

The City purchased a fully integrated financial and human resources management information system in 1995 from Pentamation Enterprises, Inc. of Bethlehem, Pennsylvania. The product is currently supported by the SUNGUARD Corporation under the FINANCE PLUS name. The fund accounting; budget preparation; purchasing and requisitioning; and payroll/human resources modules of this system are completely integrated and functioning effectively. These modules are used for all City financial activities, including the

disbursement of contributory and non-contributory retirement benefits. Capital asset accounting is done in a Microsoft Excel workbook and the Treasurer's cashbook is maintained in Quickbooks. Tax and utility billings and detailed receivable records are maintained using MUNIS software, which has been electronically bridged to FINANCE PLUS by City Information Technology Department staff. Retirement system membership and financial accounting is done with software provided by Public Technology Group (PTG).

Pdf copies of all purchase orders; paid vendor invoices; payrolls; cash receipt schedules; and journal entries (with supporting detail) are maintained by the City.

Both City and Retirement system accounts are closed on a monthly basis. Complete budgetary basis financial reports are posted on the Comptroller's page of the City web site on a quarterly and annual basis, and monthly updates are posed for selected purposes, as requested by either executive or legislative branches of City government, or deemed important by the City Comptroller.. Annual budgetary basis financial reports are prepared and issued within 60 days after the end of the fiscal year and all state and federal budgetary basis financial reporting is current.

Copies of the City's audited Comprehensive Annual Financial Report, Single Audit Report and Management Letter for June 30, 2012 and for prior years may be down loaded from the City's web-site at <http://www.newtonma.gov/gov/comptroller/audrep.asp> Questions about this report or the condition of the City's accounting and financial reporting records and/or systems should be directed to David Wilkinson, City Comptroller at telephone number (617) 796-1305 or e-mail account dwilkinson@newton.ma.gov.

Required Services

Required services consist of:

1. An independent financial audit of the City's Comprehensive Annual Financial Report and federal awards programs for each of the next five fiscal years. The audit must be conducted in accordance with auditing standards generally accepted in the U.S., Government Auditing Standards promulgated by the Comptroller General of the U.S.; the Single Audit Act Amendments of 1996 and the provisions of OMB Circular A-133.
2. Completion of the Massachusetts Department of Elementary and Secondary Education's Report on Applying Agreed –Upon Procedures over compliance Applicable to Massachusetts School Districts' End of Year Pupil and Financial Report for each of the next five fiscal years.
3. Completion of a written management letter, which shall identify any control deficiencies not considered significant deficiencies observed during the course of the annual financial statement audit and recommended cost-effective steps to correct or eliminate the control deficiencies. It is expected that all management letter recommendations will be based upon an independent analysis by the auditor that supports the notion that the benefit(s) associated with recommendations will exceed costs associated with implementation. Prior to the completion of the management letter, the auditor shall meet with the Comptroller and the head of each department for which there is a management letter comment and recommendation to review the findings and recommendation in detail.

The final copy of the management letter shall contain printed responses from the head of each department or senior management official for which there is a management recommendation, along with a recommended implementation plan.

4. In addition to completing the annual audit, the accounting firm shall be available during normal business hours, throughout the contract period, to provide the City with advice and guidance on financial accounting and reporting issues. The accounting firm will also be expected to keep the City staff informed about requirements of all new accounting and financial reporting pronouncements of the Governmental Accounting Standards Board; the United States Office of Management and Budget; and the Commonwealth of Massachusetts and provide sufficient training to City staff for them to effectively meet their responsibilities under all such new requirements. It is expected that the successful proposer will designate a senior staff member, at the manager or partner level, who will be responsible for responding to City phone calls and e-mail communications within one business day.

All audit work-papers that are the property of the auditors shall be considered public records and shall be retained for a period of time designated by the Commonwealth of Massachusetts's Supervisor of Public Records. Work-papers shall be available for examination or duplication without charge to authorized City personnel, representatives of Federal or State Agencies upon request of that Agency or the City in accordance with Federal Law, State Law and other regulations. Working papers will also be made available for examination, at no charge, or duplication, at a reasonable charge, to subsequent auditors engaged by the City.

Deliverables shall consist of:

1. (35) printed and bound copies of the audited annual Comprehensive Annual Financial Report, including the necessary audit opinion letters.
2. (1) unbound copy of the Comprehensive Annual Financial Report.
3. (1) electronic pdf file containing the Comprehensive Annual Financial Report.
4. (35) printed and bound copies of the federal single audit report, including necessary audit opinion letters and (1) pdf copy.
5. (35) printed and bound copies of the annual management letter and (1) pdf copy.
6. (10) printed and bound copies of the Massachusetts Department of Education's Report on Applying Agreed –Upon Procedures over compliance Applicable to Massachusetts School Districts' End of Year Pupil and Financial Report.

The auditors shall be responsible for distribution of copies of all reports to state and federal regulatory and oversight agencies.

Senior representatives of the firm shall meet four to six times per year with the City's Financial Audit Advisory Committee; conduct an annual audit planning conference with the Comptroller at least one month prior to the start of each audit; shall provide the Comptroller with weekly progress reports during the course of both preliminary and final

audit field work; and shall be available to make a formal presentations of the results of the audit to the Finance Committee of the Board of Aldermen, and to the Mayor and/or School Committee.

Timing Considerations

Qualified public accounting firms wishing to present the City of Newton with a formal proposal for providing independent audit services for the next (5) years should forward (15) copies of their proposal to:

Chief Procurement Officer
City of Newton
1000 Commonwealth Avenue
Newton, Massachusetts 02459

not later than 2:00 P.M. (Eastern Standard Time) on Thursday, January 9, 2014. All proposals must be in a sealed envelope and clearly marked City of Newton Audit Services Proposal.

All proposals will be publicly opened and read aloud at 2:01 P.M. on January 9, 2014. Any proposals received after 2:00 P.M. will not be accepted.

Members of the Financial Audit Advisory Committee and Finance Committee of the Board of Aldermen will jointly interview qualified applicants during the months of January and February and will recommend appointment of the independent auditor to the full Board of Aldermen (the appointing authority for the auditors). The City intends to award the audit services contract to the firm making the most responsive proposal at the most reasonable fee during March of 2014.

The City expects the preliminary audit work, including the audit of the Newton Contributory Retirement System, to begin on or about April 1 of each year (except during the initial year of the contract, when preliminary audit work may begin as late as May 15), and to be completed not later than June 30 of each year. No audit work is to be undertaken during the July 1 to August 15 time frame. The City would expect the audit of the financial statements, notes, and MD&A components of the Comprehensive Annual Financial Report to begin between September 1 and September 15 of each contract year, and that field work would be completed and the final deliverables provided to the City not later than November 30 of each contract year. Presentations of the results of the audit are expected to be made to the Audit Advisory Committee and Finance Committee of the Board of Aldermen not later than December 15 of each contract year.

City Responsibilities

The City of Newton will provide the successful accounting firm with the following assistance in the completion of the annual audit:

Copies of the City's Budgetary Basis Annual Financial Report and files used in the preparation of the document.

A budgetary basis trial balance for all general ledger, revenue, and expenditure ledger accounts.

Adjusting journal entries, with supporting documentation, necessary for the preparation of fund financial statements.

Schedules and supporting documentation for the allocation of all expenses necessary for the preparation of government-wide financial statements.

Tables and supporting documentation for note disclosures

MD&A

Schedule of federal financial assistance.

Written confirmation documents for mailing by the accounting firm.

Pdf copies of all necessary records and documents for audit papers, including tax recap sheet; appropriations orders; cash reconciliation; and debt statements. As time permits, the City will also assist in the pulling and filing of invoices and other source documents. Depending upon Comptroller's Office work schedules, there may be times when the accounting firm will have to take responsibilities for these activities.

Billings

Progress payments may be billed monthly for actual services rendered to date. The City will not pay more than 2/3 of the annual contract value until the final report is delivered and the final presentation has been made to the Finance Committee of the Board of Aldermen.

Additional Information

If it becomes necessary to revise any part of this RFP or otherwise provide additional material information, an addendum will be issued by the City and furnished to all firms that have received a copy of this document.

All proposals become the property of the City of Newton and are subject to disclosure as required by Massachusetts General Laws and the ordinances and regulations of the City of Newton.

The City is not and will not be liable for any cost(s) incurred by in the preparation of responses to this RFP.

The City reserves the right to reject any and all proposals if it is determined to be in the best interests of the City of Newton.

II INFORMATION TO BE SUPPLIED BY PROPOSERS:

In order to simplify the evaluation process and obtain maximum comparability, the City requires that all responses to this RFP be organized in the manner

described in this section. Any material deviation from this format may result in disqualification of the proposal.

A) Title Page

RFP Title

Name of Proposer

Address and telephone number of proposer

Name of primary contact

Submission date

B) Letter of Transmittal

Briefly state the proposer's understanding of the work to be performed and make a positive commitment to complete all work and deliver all written reports within the specified time frames.

Specify an all inclusive fixed fee for each engagement year, and state that your proposal is valid for a period of (90) days.

The letter must be signed by an individual authorized to contractually bind your firm (please provide written evidence of the authorization).

C) Table of Contents

Include a clear identification of the material by section, and page number. The following sections are required:

D) Professional Experience

Describe your Massachusetts municipal auditing experience during the past five year period. Identify the specific partner, and staff that will be assigned to this engagement and provide copies of the resumes of each. Each resume must identify specific Massachusetts municipal audit experience, by client name and the time period, and provide a description of the nature of audit services provided by each individual expected to be assigned to the Newton audit.

Provide a description of your firm's municipal auditing continuing education program, including any continuing education and training that you provide to clients.

Describe the professional quality control program employed by your firm for municipal audits. Please include a copy of the results of the last professional peer review of your firm.

Provide the name, address, and telephone number of at least (3) Massachusetts municipal audit client references in organizations of similar size and complexity as the City of Newton that the City can contact.

Identify any Massachusetts government clients lost over the previous three years and prove an explanation for each as to the primary reasons why you believe they discontinued your services.

Provide evidence of staff experience in federal A-133 audits.

E) Audit Approach

State the proposer's understanding of the services to be performed and the work products to be delivered.

Submit a detailed work plan, including time estimates and staffing requirements for each major component of the engagement. Please include a brief description of the specific audit procedures that you anticipate using in each segment of the audit (cash; revenue; expenditures; etc.).

Provide a description of the additional services that your firm would be willing to provide to the City, in connection with the audit, but at no additional cost, including a description of the process that will be used to provide City staff with continuing education and training on new financial reporting requirements of the Governmental Accountings Standards Board.

F) Compensation

State the estimated number of hours, which you expect to commit, by staff level, for each component of the engagement, by year.

The proposal must include an annual, all-inclusive fixed fee for each engagement year.

Comprehensive Annual Financial Report – City of Newton

Fiscal Year Ended June 30, 2014	_____
Fiscal Year Ended June 30, 2015	_____
Fiscal Year Ended June 30, 2016	_____
Fiscal Year Ended June 30, 2017	_____
Fiscal Year Ended June 30, 2018	_____

Federal Single Audit Report (cost per major program)

Fiscal Year Ended June 30, 2014	_____
Fiscal Year Ended June 30, 2015	_____
Fiscal Year Ended June 30, 2016	_____
Fiscal Year Ended June 30, 2017	_____
Fiscal Year Ended June 30, 2018	_____

Department of Education Year-End Pupil and Financial Report Compliance Review Report

Fiscal Year Ended June 30, 2014	_____
Fiscal Year Ended June 30, 2015	_____
Fiscal Year Ended June 30, 2016	_____
Fiscal Year Ended June 30, 2017	_____
Fiscal Year Ended June 30, 2018	_____

G) Additional Information

Please provide any additional information, not specifically requested, but which you believe would be useful to the City in evaluating your proposal. We would appreciate any comments or observations that you might have about specific improvements which you would recommend in the City's budgetary basis and/or external financial reporting.

EQUAL OPPORTUNITY AND LOCAL OPPORTUNITIES PROVISIONS

The work covered by this RFP is assisted by Federal funds under Title I of the Housing and Community Development Act of 1974, as amended, and is subject to the provisions listed below. Respondents understand and agree to adhere to the following provisions, including filing, reporting and workforce statements, as applicable.

EQUAL OPPORTUNITY

Title VI, Civil Rights Act of 1964, as amended

Section 109, Housing and Community Development Act of 1974, as amended

Title VIII, Civil Rights Act of 1968, as amended.

Executive Order # 11063

Executive Order # 11246

The City of Newton is an Equal Opportunity Contractor

CITY OF NEWTON, MASSACHUSETTS
FINANCIAL AUDIT SERVICES
SCHEDULE FOR SELECTION OF PUBLIC ACCOUNTING FIRM
TO PERFORM THE ANNUAL FINANCIAL AUDIT FOR
Fiscal Years 2014 – 2018

- Finalize Request for Competitive Proposal Document – December 2, 2013
- Docket item before Board of Aldermen for Selection of Independent Financial Auditor for the next five year period – December 2, 2013
- Issue Request for Competitive Proposals Document – December 12, 2013
- Audit Services Proposals Due – January 9, 2014
- Distribution of Audit Services Proposals to Finance Committee & Financial Audit Advisory Committee – January 10, 2014.
- Finance Committee/Financial Audit Advisory Committee Interviews – January 13 – February 10, 2014 (prior to the start of the Finance Committee regular business meeting)
- Finance Committee vote on recommended audit firm to full Board of Aldermen – February 24, 2014
- Board of Aldermen vote to select audit firm – March 3, 2014
- Engagement letter/contract signing – March 24, 2014 – March 31, 2014
- Preliminary audit work begins – April/May 2014
- Final audit work begins – September 2014

CITY OF NEWTON, MASSACHUSETTS
FINANCIAL AUDIT SERVICES
AUDIT SERVICES PROPOSAL PRIMARY EVALUATION CRITERIA

A. Auditor Level experience

Highly advantageous – Firms who have more than 3 CPA’s who have 10 or more years of experience auditing Massachusetts municipalities.

Advantageous – Firms who have 2 CPA’s who have at least 10 year or more years of experience auditing Massachusetts municipalities.

Not advantageous – Firms with fewer than 2 CPA’s who have less than 10 years of experience auditing Massachusetts municipalities.

B. Firm Municipal Audit experience

Highly advantageous – Firms who have completed 15 or more Massachusetts municipal audits each year for fiscal 2011 through fiscal 2013.

Advantageous – Firms who have completed 10 but fewer than 15 Massachusetts municipal audits each year for fiscal 2011 through fiscal 2013.

Not advantageous – Firms who have completed less than 10 Massachusetts municipal audits each year for fiscal 2011 through fiscal 2013.

C. Size of Municipalities audited

Highly advantageous – Firms who have experience auditing at least 5 Massachusetts municipalities with greater than \$200 million in General Fund revenues for fiscal 2011 through fiscal 2013.

Advantageous – Firms who have experience auditing at least 1 Massachusetts municipality with greater than \$200 million in General Fund revenues for fiscal 2011 through fiscal 2013.

Not advantageous – Firms who have no experience auditing Massachusetts municipalities with greater than \$200 million in General Fund revenues for fiscal 2011 through fiscal 2013.

D. CAFR experience

Highly advantageous – Firms who have experience completing at least 5 Comprehensive Annual Financial Reports for fiscal 2011 through fiscal 2013.

Advantageous – Firms who have experience completing at least 1 but fewer than 5 Comprehensive Annual Financial Reports for fiscal 2011 through fiscal 2013.

Not advantageous – Firms who have no experience completing a Comprehensive Annual Financial Report for fiscal 2011 through fiscal 2013