

# **FINANCIAL AUDIT ADVISORY COMMITTEE**

## **Agenda**

**Thursday, December 6, 2012 at 8:00 AM**

**Room 222, City Hall**

## **Agenda Items**

The Committee will meet with the City's external auditing firm to receive a status report on the ongoing Fiscal Year 2012 Audit.

Note: The audited Comprehensive Annual Financial Report (CAFR) can be found on the City web site under the following link: <http://newtonma.gov/gov/comptroller/new.asp>

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# City of Newton, Massachusetts

Fiscal Year 2012 Audit Exit Conference

December 6, 2012

Presented by: Chris Rogers, CPA, Shareholder

# Agenda

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- Engagement summary
- CAFR/Financial Statement summary
  - ▣ CAFR Structure
  - ▣ Opinion
  - ▣ Financial highlights
  - ▣ Significant footnotes
  - ▣ Required Supplementary Information
- Reports on Internal Control and Federal Awards
- Management Letter

# Engagement Summary

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- Audit began September 2012
- Financial statement/CAFR draft issued 10-31; final issued 11-30
- Management letter and Reports on Internal Control and Federal Awards drafts issued 11-9 and 11-30
- Information provided timely and was well organized
- Management and staff responsive to all inquiries
- No disagreements with management

# CAFR Structure

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- Introductory section (p i-viii)
- Financial section
  - ▣ Auditors' opinion (p 1-2)
  - ▣ Management's discussion and analysis (p 3-16)
  - ▣ Financial statements and notes (p 17-73)
  - ▣ Required supplementary information (p 74-75)
  - ▣ Combining statements and schedules (p 76-113)
  - ▣ Additional information (p 114-121)
- Statistical Section (p 122-139)

# Opinion

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- Opinion (p 1-2)
  - ▣ Unqualified opinion (best opinion available)
  - ▣ Other auditors audited Newton Commonwealth Foundation and Newton Community Farm
    - Discretely presented component units

# Financial Highlights

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- **Government-Wide Financial Statements (Full Accrual)**
  - ▣ **Statement of Net Assets - Governmental Activities (p 17-18)**
    - **Assets - \$545m**
      - Cash and investments - \$101.5m
      - Capital assets - \$407.5m
    - **Liabilities - \$383.3m**
      - Bonds payable - \$188.3m
      - Net OPEB obligation - \$144.3m
    - **Net Assets – \$161.2m**
      - Invested in capital assets, net of debt - \$220.2m
      - Restrictions - \$34.5m
      - Unrestricted – (\$93.5m)
  - ▣ **Statement of Net Assets - Business-type Activities (p 17-18)**
    - Represent collective balances of enterprise funds, which are discussed individually further in this document

# Financial Highlights

- Government-Wide Financial Statements (continued)
  - ▣ Statement of Activities - Governmental Activities (p 19-20)
    - Decrease in net assets of \$19.6m, or 10.7%
      - Primarily the result of recognizing \$29.1m in OPEB expense and a decrease of \$3.3m in snow and ice expenses
    - Total expenses - \$389.7m
      - Education - \$252.9m, or 64.9%
      - Public safety - \$56.1m, or 14.4%
      - Public works - \$24.2m, or 6.2%
    - Total revenues – 368.9m
      - Program revenues - \$94.0m, or 24.1%
        - Operating grants and contributions - \$65.8m, or 70.0%
      - General revenues and transfers - \$274.9m, or 75.9%
        - Real estate \$249.3m, or 90.7%



# Financial Highlights

8

- Governmental Funds Financial Statements (Modified Accrual)
  - General Fund
    - Balance Sheet (p 21)
      - Fund balance - \$28.2m
        - Restricted - \$938k (debt service, OPEB, capital)
        - Committed - \$9.8m (funding of the FY 13 budget, continuing appropriations & capital)
        - Assigned - \$2.6m (encumbrances and capital)
        - Unassigned - \$14.9m
          - Includes \$6.2m of general/"rainy day" stabilization funds
          - Represents 4.5% of total revenues and other financing sources (3.4 – 5.7% over the past 6 fiscal years)
      - See Note 14, page 67, for further detail

# Financial Highlights

## □ General Fund

### ■ Statement of changes in fund balance (p 23)

- Net change in fund balance – (\$2.5m)
  - Use of reserves (including prior year carry-forwards) – \$10.8m (primarily free cash and continuing appropriations of \$6.2m and \$3.8m, respectively)
  - Budgeted revenue positive variance - \$3.0m
  - Budgeted expenditures positive variance - \$6.6m
    - Encumbrances and continuing appropriations totals \$4.6m
- General Fund debt service as a percentage of total expenditures and transfers out – 4.8% (4.9% in prior year)
- Paid approximately \$494k in interest on refund to Verizon

# Financial Highlights

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## ▣ Other Governmental Funds

### ■ Fund balances

- Community Preservation - \$8.6m
- School construction/renovation - \$5.4m
- Education - \$4.5m
- Culture and recreation - \$2.9m
- Receipts reserved - \$4.8m

# Financial Highlights

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- Proprietary Funds Financial Statements (full accrual)
  - Sewer Enterprise
    - Statement of net assets (p 27)
      - Assets - \$54.4m
        - Cash and investments - \$9.9m
        - Capital assets - \$33.7m
      - Liabilities - \$13.4m
        - Bonds payable - \$11.1m
        - Net OPEB obligation - \$1.6m
      - Net assets - \$41.0m
        - Invested in capital assets, net of debt - \$24.6m
        - Restricted (capital) – \$2.9m
        - Unrestricted - \$13.5m

# Financial Highlights

12

## □ Sewer Enterprise (continued)

### ■ Statement of revenues, expenses and changes (p 28)

- Net change in net assets - \$4.6m (\$3.3m in prior year)

- Primarily result of rate increase, reduction in abatements compared to the prior year and increase in capital contributions

## □ Water Enterprise

### ■ Statement of net assets (p 27)

- Assets - \$57.4m

- Cash and investments - \$8.8m

- Capital assets - \$42.6m

# Financial Highlights

13

- Water Enterprise (continued)
  - Liabilities - \$21.4m
    - Bonds payable - \$18.2m
    - Net OPEB obligation - \$1.9m
  - Net assets - \$36.0m
    - Invested in capital assets, net of debt - \$24.4m
    - Restricted (capital) – \$4.0m
    - Unrestricted - \$7.6m
- Statement of revenues, expenses and changes (p 28)
  - Net change in net assets - \$3.3m (\$3.8m in prior year)
    - Rate increase, reduction in abatements compared to the prior year offset by increase in depreciation (resulting from water meter additions)

# Financial Highlights

14

- ▣ Internal Service Fund (self-insured activities for health, workers' compensation, building and liability insurance)
  - Statement of net assets (p 27)
    - Assets - \$28.1m
      - Cash and investments - \$27.6m
    - Liabilities - \$12.9m
      - Accrued health claims - \$3.7m
      - Workers' compensation - \$6.5m
    - Net assets - \$15.1m
      - Health - \$12.8m
      - Workers' compensation - \$1.7m
      - Building - \$434k
      - Liability - \$223k

# Financial Highlights

15

- ▣ Internal Service Fund (continued)
  - Statement of revenues, expenses and changes (p 28)
    - Net change in net assets - \$2.1m ((\$248k) in prior year)
      - Primarily related to \$2.5m decrease in health insurance claims during fiscal year 2012



# Financial Highlights

16

- Fiduciary Funds Financial Statements (full accrual)
  - Pension Trust Fund
    - Statement of Fiduciary Net Assets (p 30)
      - Net assets - \$233.3m (primarily consisting of cash and investments)
    - Statement of Changes in Fiduciary Net Assets (p 31)
      - Change in net assets – (\$8.0m); prior year increase of \$18.8m
        - Change from prior year primarily the result of investment gains (losses) – (\$28m) decrease from the prior year
    - Funding progress (p 70)
      - Unfunded actuarial accrued liability (UAAL) - \$231.1m
      - Funded ratio – 53.1% as of 01/01/12
        - City is responsible for 98.9% of UAAL

# Significant Footnotes

17

- Note 10 - Long-term Debt (p 57-62)
  - ▣ Total outstanding
    - Governmental Funds - \$188.3m
    - Water - \$18.2m
    - Sewer - \$11.1m

# Significant Footnotes

18

- Note 12 – OPEB (p 62-65)
  - 5<sup>th</sup> year of OPEB accrual
  - UAAL at 06/30/12 - \$601.3m
  - Net OPEB Obligation at 06/30/12 – \$147.9m
  - FY 12 ARC - \$46.4m
    - Paid \$16.6m (pay-as-you-go)
    - Increase to NOPEBO - \$29.8m
    - Percentage contributed related to ARC – 35.3%
  - Note: \$313k set aside in OPEB trust (employer asset reported as restricted general fund balance)

# Significant Footnotes

- Note 14 – Fund Balances (p 67)
  - ▣ Provides detail of fund balances reported in Governmental Funds
  
- Note 15 - Stabilization Funds (p 68)
  - ▣ Describes establishment and use of funds
  - ▣ Capital stabilization totals \$5.2m
  - ▣ General/”rainy-day” stabilization totals \$6.2m

# Required Supplementary Information

20

- Pages 74-75
  - ▣ Includes historical pension and OPEB information
    - Schedules of funding progress
    - Schedule of employer contributions
    - City share of retirement system ARC

# Report on IC over FR, Compliance and Federal Award Programs

21

- Document structure
  - ▣ Report on internal control (IC) over financial reporting (FR), compliance and other matters (p 1-2)
    - Required by Government Auditing Standards
    - No opinion provided
    - Must report the following:
      - Any significant deficiencies or material weaknesses in internal control over financial reporting
      - Material noncompliance related to laws, regulations, contracts and grant agreements

# Report on IC over FR, Compliance and Federal Award Programs

22

- Document structure (continued)
  - ▣ Report on Compliance with Major Federal Award Programs (p 3-5)
    - Provides an opinion on compliance related to major federal award programs
    - Reports on any significant deficiencies or material weaknesses in internal control over major federal award program compliance
  - ▣ Schedule of Expenditures of Federal Awards (p 6-8)
  - ▣ Notes to Schedule (p 9)
  - ▣ Schedule of Findings and Questioned Costs (p 10-21)

# Report on IC over FR, Compliance and Federal Award Programs

23

## □ Results

- No findings cited in Report on IC over FR, Compliance and Other Matters
- Material weaknesses in internal control over compliance is reported in several federal award programs
- Unqualified opinion (best available) on all major federal award programs, which were:
  - Child Nutrition/School Lunch; CDBG; HOME; Public Safety Partnership and Community Policing; Energy Efficiency (ARRA); Special Education; Safe Schools; Education Jobs (ARRA); and Public Assistance
  - Total federal expenditures - \$11.9M
- 14 findings reported (7 related to internal control; 7 related to program noncompliance)



# Report on IC over FR, Compliance and Federal Award Programs

24

## □ Findings

### □ Child Nutrition Cluster (p 12-13)

- Material weakness in IC (finding 12-1)
  - Eligibility and Special Tests and Provisions - Procedures are not in place to ensure that lunch applications and income documentation obtained are maintained on file
- Noncompliance (finding 12-2)
  - The October 2011 claim for reimbursement to DESE did not agree to the detailed breakdown of school nutrition activity
  - Questioned costs - \$21
- Noncompliance (finding 12-3)
  - 4 of the 60 student files tested were either missing the original applications filed or did not contain sufficient documentation to support eligibility
  - Questioned costs - \$2,658

# Report on IC over FR, Compliance and Federal Award Programs

25

## □ Findings

### □ HOME Program (p 13-14)

#### ■ Noncompliance (finding 12-4)

- Program management did not enter program income enter federal IDIS system timely. As a result, there were instances where program income was not applied against grant expenses prior to federal grant drawdowns
- Questioned costs – None

### □ Public Safety Partnership and Community Policing (p 14-15)

#### ■ Material weakness in IC (finding 12-5)

- Internal controls are not in place to verify contracts entered into > \$25k are not suspended, debarred or otherwise excluded from doing business

# Report on IC over FR, Compliance and Federal Award Programs

26

- ▣ Public Safety Partnership and Community Policing (cont)
  - Noncompliance (finding 12-6)
    - Salaries charged to the grant for several employees were not supported by timesheets
    - Questioned costs - \$1,920
- ▣ Public Assistance Grants (p 15)
  - Material weakness in IC (finding 12-7)
    - Internal controls are not in place to verify contracts entered into > \$25k are not suspended, debarred or otherwise excluded from doing business

# Report on IC over FR, Compliance and Federal Award Programs

27

- ▣ ARRA Energy Efficiency (p 16–19)
  - Material weakness in IC (finding 12-8)
    - Internal controls are not in place to maintain payment requests and the accounting records supporting them
  - Material weakness in IC (finding 12-9)
    - Internal controls are not in place to prepare financial reports submitted to the Department of Energy based on activity recorded in the general ledger
  - Material weakness in IC (finding 12-10)
    - Internal controls are not in place to label equipment as federally funded and perform an annual physical inventory
  - Material weakness in IC (finding 12-11)
    - Internal controls are not in place to verify contracts entered into > \$25k are not suspended, debarred or otherwise excluded from doing business

# Report on IC over FR, Compliance and Federal Award Programs

28

- ▣ ARRA Energy Efficiency (cont)
  - Noncompliance (finding 12-12)
    - Program management did not maintain copies of the payment requests and supporting documentation
    - Questioned costs – none
  - Noncompliance (finding 12-13)
    - Financial reports submitted to the Department of Energy were not completed based upon expenditures recorded in the general ledger, which does not reflect an accurate and complete disclosure of results
    - Questioned costs – none
  - Noncompliance (finding 12-14)
    - Equipment purchased with federal funds was not labeled as such. In addition, the City did not perform a physical inventory.
    - Questioned costs - none

# Management Letter

29

- Does not identify the strengths of the financial systems
- 3 comments removed from prior year
  - ▣ NCDA, Bank Reconciliations and Test Database
- Summary
  - ▣ 12 comments
    - 3 new
    - 8 repeat
    - 1 informational

# Management Letter

30

- Water and Sewer Billings (Page 1)
  - Consistent with prior years, some water and sewer bills are based on estimates and false reads from a faltering reading system
    - Approximately 5% have multiple estimated reads (up to 12)
    - Abatements totaling approximately \$4M were issued during the year
      - \$800k less than the prior year
      - Our subsequent audit work identified abatements totaling \$130k for July & August 2012, a \$343k decrease from same period in prior year
  - Approximately 99% of the new meters were installed at June 30, 2012; however, the reading system was not entirely functional
  - We recommend the new metering system be fully implemented as soon as possible

# Management Letter

31

- City-Wide Grants Administrator (Page 2)
  - Current structure places responsibility of administering grants at the Department level
    - Grant administration positions only exist in the School and Planning and Development Departments
  - We believe the City is at risk in the administration and adherence to state and federal grant compliance requirements
    - Failure to comply with grant requirements potentially results in repayments to the granting agency or reduction in future awards
  - We recommend consideration of a City-Wide Grants Administrator



# Management Letter

32

- Parks and Recreation (Page 3)
  - ▣ Cash receipt activities
    - Swimming facilities daily bracelets
      - No log is maintained that identifies the starting and ending number of daily bracelets sold. As a result, a reconciliation of bracelets sold to cash receipts cannot be performed.
      - Schedule of Payments to City Treasurer does not include signoffs of the preparer or reviewer. As a result, control activities are not being documented.
      - No documentation (signature or initials) supporting the reconciliation of bank deposit to receipts entered to SportsMan
  - ▣ We recommend (1) a daily log be maintained and reconciled to daily cash collections; and (2) that all Schedules and reconciliations performed be documented by the preparer and/or reviewer's signature or initials

# Management Letter

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- Service Organization Controls (Page 4)
  - ▣ City engages third-party service providers to process certain financial transactions (i.e., deputy tax collector)
    - The use of service organization's is an extension of the City's internal control over financial reporting, compliance, privacy, etc.
    - When third-party service providers are utilized, the City can monitor the third party's controls through the requirement of them obtaining a SOC 1 or SOC 2 report
  - ▣ We recommend:
    - The City identify each service organization utilized and request the applicable SOC report (annually)
    - The City include a requirement for each service organization to obtain an annual SOC report

# Management Letter

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- Risk Assessment and Monitoring (Page 5)
  - ▣ The City, like many municipalities, has not implemented a formal risk assessment and monitoring program
    - Important element of internal control
    - Purpose is to identify, anticipate, analyze and manage risk of asset misappropriation (i.e., cash, movable inventory, etc.)
  - ▣ Should be led by employees who have extensive knowledge of the City's operations
    - However, all departments must be involved
  - ▣ We recommend the City implement a formal risk assessment and monitoring programs

# Management Letter

35

- Police Details (Page 6)
  - ▣ For financial reporting purposes, the City considers police detail accounts receivable uncollectible if greater than 1 year old (approximately \$33k)
    - However, a formal policy does not exist for the actual “write-off” of uncollectible amounts
  - ▣ In addition, the Police Department utilizes an internally developed database for billings and collections that doesn’t facilitate a clear audit trail and effective reporting
  - ▣ We recommend the development of a formal uncollectible policy and the consideration of purchasing software specifically designed for billing and collection

# Management Letter

36

- Student Activity Funds (Page 7)
  - ▣ MGL Chapter 71, Section 47 requires annual audit of student activity funds
    - MASBO recommends that every 3 years an independent audit firm perform agreed-upon procedures or an audit
  - ▣ Consistent with prior years, an annual audit or agreed upon procedures were not performed
    - Subsequent to year-end the City performed agreed-upon procedures related to the NNHS and NSHS student activity funds
  - ▣ We recommend the City have an annual audit or agreed-upon procedures of its student activity funds annually

# Management Letter

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- Unclaimed Checks (Page 8)
  - A current list of check numbers, check dates, payees, address and related amounts was not provided to support the \$500,000 liability reported on the general ledger
    - This information is critical when following up and resolving unclaimed check amounts
  - We recommend:
    - T/C investigate and identify the pertinent unclaimed check information and reconcile to the general ledger
    - T/C implement procedures to investigate and resolve the unclaimed check amounts in accordance with MGL

# Management Letter

38

- Old Outstanding Checks (Page 9)
  - Vendor and payroll outstanding checklists identify approximately \$214k in checks > 3 months old
    - Typically means checks are lost, void or misplaced
  - We recommend procedures be implemented to investigate and resolve checks > 3 months old monthly

# Management Letter

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- Financial Policies and Procedures (Page 10)
  - A formal financial policies and procedures manual does not exist
    - A formal manual would improve and standardize the City's financial policies and procedures, which enhances supervisory personnel effectiveness and transition effectiveness and efficiencies upon employee turnover
    - Should address major financial processes, such as cash receipts and disbursements, purchase orders, personnel, etc.
  - We recommend the development of a formal manual



# Management Letter

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- Disaster Recovery Plan (Page 11)
  - ▣ In the prior year, we identified that although the City's financial data and software could be recovered, the City may not have the ability to physically run the software and access the data
    - During FY 12, the City addressed the hardware required to access the data and location to operate the g/l software; however, the hardware required to access the detailed accounts receivable data (MUNIS) has not been addressed
  - ▣ We recommend the detailed accounts receivable data be addressed in the City's disaster recovery plan

# Management Letter

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- Pension Accounting and Financial Reporting (Pg 12)
  - ▣ GASBS 68 revises/establishes new financial reporting requirements related to pension benefits
    - Required to recognize long-term obligation for pension benefits in government-wide financial statements
    - Also requires:
      - More comprehensive measure of annual pension costs
      - Conditions on the use of discount rate
      - Requirement to use entry age method and each service period's cost is determined by level % of pay (attribution method)
      - Expanded note disclosures
  - ▣ We recommend management familiarize itself with GASBS 68 and prepare for its implementation

**CITY OF NEWTON, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2012**



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, 2012, 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 26, 2012, 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 26, 2012

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CITY OF NEWTON, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012

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## Comments and Recommendations

### Water and Sewer Billings

#### Comment

Consistent with the prior years, we identified the following deficiencies related to the City's water and sewer billing system:

1. Some water and sewer bills continue to be based on estimates. We identified that some accounts had as many as 12 consecutive estimates and overall approximately 5% of users have multiple estimated bills.
2. Some water and sewer bills were based on "false reads", resulting from a faltering reading system.

The Water and Sewer Department continued to make a concerted effort to obtain actual readings on accounts that were based on estimates (beginning with accounts with the largest number of consecutive estimates) and accounts where readings appeared abnormal. As a result, the Water and Sewer Department issued approximately \$4,000,000 in abatements during fiscal year 2012, a decrease of approximately \$800,000 from fiscal year 2011. The cause of a substantial amount of these abatements is as follows:

1. Overestimates (approximately \$3,100,000)
2. False readings (approximately \$116,000)

The City began the installation of new meters and reading devices in February 2010 and is expected to be completed by December 2012. As of June 30, 2012 approximately 99% of these new meters had been installed, but the reading system was not entirely functional. As part of our subsequent audit work, we identified that abatements totaling approximately \$130,000 had been granted for July and August 2012 billings, a decrease of approximately \$343,000 from the same period of the previous fiscal year. It is imperative that accurate actual readings occur on all accounts at all times to properly bill customers for water and sewer use, which, under the current system, will require Water and Sewer personnel to manually obtain.

#### Recommendation

The City is currently in the process of replacing all of the City's meters and implementing a new metering process that will allow the City to remotely obtain a reading at City Hall at any point in time. The implementation of this new system should significantly reduce the need for substantial abatements (once the system is fully operational) since estimates will no longer be required and the ability to identify false readings will be enhanced. We recommend that the new metering system be implemented as soon as possible.

#### Management's Response

The new meter and meter reading systems should be fully operational shortly. Only properties with piping issues remain to be completed, which represents 0.8% of the total project. With actual readings being transmitted, the City anticipates abatements needing to be processed will be minimal, particularly in light of the fact that notification of exceptional usage has already been implemented.



## City-Wide Grants Administrator

### Comment

Excluding local aid distributions and state grants received for school construction and roadway repairs and reconstruction, the City has received approximately \$60 million in federal and state grants over the past three (3) fiscal years.

The City's current structure places the responsibility of administering federal and state grants at the Department level. Although the City's School and Planning and Development Departments employ grant administrators, no such position exists for the remainder of the City's Departments. We believe the current structure places the City at risk in the administration and adherence to compliance requirements of state and federal grants.

Failure to comply with federal and state grant compliance requirements can potentially result in the City repaying monies that were not spent in compliance with grant requirements or may lead to a reduction of future grant awards due to the inadequacy of the internal controls surrounding grant programs.

### Recommendation

We recommend the City consider employing a City-wide Grants Administrator (federal and state grants) that possesses significant knowledge of federal and state guidelines (i.e., OMB Circulars A-133, A-87, etc.) and compliance requirements, and is familiar with federal and state grant contracts and agreements.

### Management's Response

Given the expiration funding for all federal stimulus (ARRA) programs and likely further reductions in federal spending, it is not clear that the City of Newton will have 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. We will, however, 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 with existing staffing.

## **Parks and Recreation**

### Comment

We documented the system of internal control surrounding the Parks and Recreation Department's (Department) cash receipt activities and identified the following:

- Although daily bracelets are utilized at each swimming facility (Gath Pool and Crystal Lake), no log is maintained that identifies the starting and ending bracelet number sold for each day. In addition, no documentation exists that reconciles the number of daily bracelets sold to the actual cash receipts collected. The current process inhibits the ability to reconcile cash collections to the use of the facilities.
- The Schedule of Payments to City Treasurer (Schedule) submitted by the Department does not contain the signature of the preparer or reviewer of the document. As a result, key controls are not being documented, which is a weakness in internal control.
- There is no documentation (i.e., an initial or signature) 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).

### Recommendation

We recommend the use of a manual log that identifies the starting and ending bracelet number sold each day. In addition, we recommend a daily formal reconciliation be prepared that reconciles the number of bracelets sold to cash collections.

We recommend the Schedule contain preparer and reviewer signatures.

We recommend the Department's bookkeeper formally document (i.e., a signature or initials) the reconciliation of deposits to receipts entered into SportsMan.

### Management's Response

The Comptroller is in agreement with these recommendations and will work with the Parks Department to implement the improvements. Departmental cash receipt collections will be a primary area of focus for the City's Audit Committee during the next year.

## Service Organization Controls

### Comment

The City, like many local governments in Massachusetts, engages third-party service providers (service organizations) to process certain financial transactions (i.e., Deputy Tax Collector). In such instances, the related financial transactions are affected by the City's internal controls and the controls employed by the service organization. Therefore, as part of its monitoring efforts to ensure that internal controls over financial reporting are effective and functioning as intended, City management must evaluate whether service organization controls are suitably designed and effective.

Furthermore, service organizations often have information regarding employees and customers that must be protected (e.g., social security numbers). Such controls generally relate to the security, availability, processing integrity, confidentiality or privacy of information. Therefore, as part of its monitoring efforts to ensure the privacy and protection of its employees and customers' information, management must evaluate whether service organization controls are suitably designed and effective.

The most effective and efficient way for the City to accomplish its monitoring efforts is to obtain the appropriate *Service Organization Control (SOC)* reports from its third-party service providers.

There are two types of SOC reports that service auditors provide to service organizations for the benefit of their users, which are as follows:

- SOC 1 (previously SAS 70) reports – provide an opinion on controls at a service organization that are likely to be relevant to a user entity's internal control over financial reporting
- SOC 2 reports – provide an opinion on controls at a service organization that are related to the American Institute of Certified Public Accountants (AICPA) Trust Service Principles, which are (1) security; (2) availability; (3) processing integrity; (4) confidentiality; and (5) privacy.

Service organizations should be engaging a service auditor to provide the appropriate SOC report(s) and should make the resulting report available to their customers (e.g., the City).

### Recommendation

We recommend the City identify each service organization utilized and request the applicable SOC report (annually).

Because all service organizations are an extension of the City's internal control, we recommend all service organization contracts include a requirement to obtain the appropriate SOC report (annually).

### Management's Response

The Comptroller is in agreement with this recommendation and will work with the Treasurer and Planning and Community Development Department; and Retirement Board to implement the recommendation during the second half of fiscal year 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

The City's Audit Committee and management are in agreement with this recommendation and will continue to work to implement such activities.

## Police Details

### Comment

The City currently has approximately \$33,000 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 City's Law Department continues to work with the Police Department in an effort to collect all delinquent unpaid police detail bills. A process is currently in place whereby the Police Department and Law Department review outstanding detail receivables and based upon their joint analysis recommend the write off of any amounts not judged to be collectible to the Comptroller. A total of \$34,451 in such unpaid accounts was written off at June 30, 2012, using unexpended police salary funds as a financing source. The City's existing police detail receivable system is currently being modified to allow for the calculation and accounting and reporting of interest on delinquent accounts. Weekly uncollectible account reports are also now being forwarded to the Law Department; Engineering Department; and Comptroller. We will continue to evaluate options to existing billing and collection software.

## **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.”

Consistent with prior years, an annual audit or agreed upon procedures was not performed on the City’s student activity funds. However, subsequent to fiscal year end, the City internally performed agreed upon procedures on the Newton North and Newton South High Schools’ student activity funds.

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.

### Recommendation

We recommend the City continue to make a concerted effort to comply with the requirements of MGL Chapter 71, Section 47 by, having an annual audit or agreed-upon procedures performed on *all* of its student activity funds.

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

The Newton Public Schools will work with the Comptroller to follow the MASBO recommended guidelines for student activity fund audits on a three year basis. The plan will be to continue the internal audits and to establish a schedule for independent audit review on approximately one third of the school accounts each year during the three year period, subject to available funding.

## Unclaimed Checks

### Comment

At June 30, 2012, the City's general ledger reports a liability for unclaimed checks totaling approximately \$500,000. However, a current list of check numbers, check dates, payee names, address and related amounts that support the amount reported on the general ledger was not provided to us. This information is critical when following up and resolving unclaimed check amounts.

### Recommendation

We recommend the Treasurer/Collector's office investigate and identify the check numbers, check dates, payee names and related amounts that reconcile to the balance reported on the general ledger.

We recommend the Treasurer/Collector's office implement procedures to investigate and resolve the unclaimed check amounts in accordance with Massachusetts Abandoned Property Laws.

### Management's Response

Documents supporting the \$500,000 were sent to the Auditors on 11/26/12. It should be noted that this balance is approximately \$225,000 less than originally reported to the Comptroller, representing cleared items. The remaining items will be posted to the City's internet and handled much the same as old checks. Also, as part of Treasury's effort to finalize procedures. The City adopted MGL 200, Sec 9A, allowing the City to retain unclaimed proceeds, but requiring a process taking over one year.

## Old Outstanding Checks

### Comment

The vendor and payroll outstanding checklists maintained by the Treasurer include many checks greater than three (3) months old totaling approximately \$214,000. Typically, checks greater than three (3) months old reflect checks that have been void, lost, misplaced or stolen.

### Recommendation

We recommend the Treasurer/Collector's office implement monthly procedures to investigate and resolve outstanding checks greater than three (3) months old. Implementation of this recommendation will strengthen internal controls over cash disbursements.

### Management's Response

A system to address old checks was initiated in April 2012. Checks greater than 3 months old have been posted on the City's website since that time. A claim form has been made available as well. Claimed and reissued checks are deleted and new checks are added to the list on a monthly basis.



## Financial Policies and Procedures Manual

### Comment

Although the City adopted top level financial policies during fiscal year 2008, we believe that preparation of a formal policy 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
- Purchase orders
- Cash disbursements
  - Payroll
  - Vendor
- 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

Both the Audit Committee and management are in agreement with this recommendation and will continue to work to implement it.

## **Disaster Recovery Plan**

### Comment

In our prior year management letter, we identified that although the City had a documented disaster recovery plan that addressed its financial data and related software, it did not have a plan that addressed the hardware required to access the data or the location(s) to operate the hardware. As a result, in the event of a disaster, the City's financial data and software could be recovered, but the City may not have the ability to physically run the software and access the financial data to maintain financial operations.

During fiscal year 2012, the City addressed the hardware required to access the data and location to operate the general ledger software (Finance Plus). However, the hardware required to access the detailed accounts receivable data (MUNIS) has not been addressed by the City.

### Recommendation

We recommend management update the current disaster recovery plan by addressing the hardware requirements to access the detailed accounts receivable data.

### Management's Response

The City's Information Technology Department presented the Audit Committee with a detailed disaster recovery plan that addresses all issues that have been raised in the management letter earlier this fall.

## 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.

### Management’s Response

The Comptroller is in complete agreement with this recommendation. We will be working with the Retirement actuary and management of the Commonwealth of Massachusetts PRIM fund to make certain that required disclosures are available for implementation.

**CITY OF NEWTON, MASSACHUSETTS**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



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

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

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

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, 2012 (except for the Newton Contributory Retirement System, the Newton Commonwealth Foundation, Inc., and the Newton Community Farm, Inc., which are as of and for the fiscal year ended December 31, 2011), which collectively comprise the City of Newton, Massachusetts' basic financial statements and have issued our report thereon dated November 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Newton, Massachusetts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Newton, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Newton, Massachusetts' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Newton, Massachusetts, in a separate letter dated November 26, 2012.

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

November 26, 2012



**Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of the City of Newton, Massachusetts (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-2, 12-3, 12-4, 12-6, 12-12, 12-13 and 12-14.

## Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A 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. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-1, 12-5, 12-7, 12-8, 12-9, 12-10, and 12-11 to be material weaknesses.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newton, Massachusetts, as of and for the fiscal year ended June 30, 2012 (except for the Newton Contributory Retirement System, the Newton Commonwealth Foundation, Inc., and the Newton Community Farm, Inc., which are as of and for the fiscal year ended December 31, 2011), and have issued our report thereon dated November 26, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

November 26, 2012

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture</b>			
<u>Passed through the State Department of Education:</u>			
Food Distribution Program	10.550	09-207	\$ 120,359
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553	09-207	41,858
National School Lunch Program	10.555	09-207	511,915
Total U.S. Department of Agriculture			<u>674,132</u>
<b>U.S. Department of Housing and Urban Development</b>			
<u>Direct Programs:</u>			
<i>CDBG - Entitlement Grants Cluster</i>			
Community Development Block Grant	14.218	Not Applicable	1,627,789
Community Development Block Grant Recovery (CDBG-R)	14.253	Not Applicable	43,438
<i>Emergency Shelter Grants Program</i>			
HOME Investment Partnerships Program	14.231	Not Applicable	99,437
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.239	Not Applicable	1,601,545
	14.257	Not Applicable	21,553
Total U.S. Department of Housing and Urban Development			<u>3,393,762</u>
<b>U.S. Department of Justice</b>			
<u>Direct Programs:</u>			
Juvenile Mentoring Program	16.726	Not Applicable	80,258
DEA Asset Forfeitures	16.922	Not Applicable	250
DEA Support Overtime Reimbursements	16.unk	Not Applicable	47,982
<u>Passed through the State Executive Office of Public Safety:</u>			
Public Safety Partnership and Community Policing Grants	16.710	Not Available	251,500
Enforcing Underage Drinking Laws Program	16.727	Not Available	4,082
Total U.S. Department of Justice			<u>384,072</u>
<b>U.S. Department of Transportation</b>			
<u>Direct Program:</u>			
ARRA - Highway Planning and Construction	20.205	Not Applicable	<u>148,200</u>
<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	<u>2,500</u>
<b>U.S. Department of Energy</b>			
<u>Direct Program:</u>			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	Not Applicable	<u>163,843</u>

(continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Education</b>			
<u>Direct Programs:</u>			
Safe Schools/Healthy Students Grant	84.184L	Not Applicable	1,106,785
Physical Education Grant	84.215F	Not Applicable	158,516
Teaching American History Grant	84.215X	Not Applicable	347,507
<u>Passed through the State Department of Elementary &amp; Secondary Education:</u>			
<u>Title I, Part A Cluster</u>			
Title I Distribution (fiscal year 2011)	84.010	305-063-1-0207-L	54,550
Title I Distribution (fiscal year 2012)	84.010	305-124-0207-M	271,356
Title I Carryover Grant (fiscal year 2011)	84.010	305-441-1-0207-L	70,182
Title I Carryover Grant (fiscal year 2012)	84.010	305-458-2-0207-M	50,426
<u>Special Education Cluster</u>			
SPED 94-142 Allocation (fiscal year 2011)	84.027	240-066-1-0207-L	9,520
SPED 94-142 Allocation (fiscal year 2012)	84.027	240-162-2-0207-M	2,733,480
SPED - Tiered Instruction (fiscal year 2011)	84.027	257-009-1-0207-L	10,000
SPED - Tiered Instruction (fiscal year 2012)	84.027	257-026-2-0207-M	2,102
SPED Program Improvement (fiscal year 2012)	84.027	274-132-2-0207-M	121,136
ARRA - SPED IDEA (fiscal year 2011)	84.391	760-041-1-0207-L	16,999
<u>Passed through the State Department of Early Education and Care:</u>			
SPED Early Childhood Allocation (fiscal year 2011)	84.173	26211 NEWTONPUBLICSCH	2,894
SPED Early Childhood Allocation (fiscal year 2012)	84.173	26212 NEWTONPUBLICSCH	67,863
ARRA - Early Childhood Allocation (fiscal year 2011)	84.392	76211 NEWTONPUBLICSCH	1,119
<u>Passed through the State Department of Elementary &amp; Secondary Education:</u>			
Carl Perkins Occupational Education (fiscal year 2011)	84.048	400-012-1-0207-L	3,007
Carl Perkins Occupational Education (fiscal year 2012)	84.048	400-031-2-0207-M	66,463
Safe and Drug-Free Schools (fiscal year 2012)	84.186	331-012-2-0207-M	743
Technical Literacy Grant (fiscal year 2010)	84.318	160-023-0-0207-K	2,000
Title III - English Language Acquisition (fiscal year 2011)	84.365	180-001-1-0207-L	18,596
Title III - English Language Acquisition (fiscal year 2012)	84.365	180-012-2-0207-M	63,920
Title IIA - Improving Teacher Quality (fiscal year 2011)	84.367	140-181-1-0207-L	53,712
Title IIA - Improving Teacher Quality (fiscal year 2012)	84.367	140-154-2-0207-M	182,873
ARRA - Race to the Top	84.395	201-135-2-0207-M	29,264
ARRA - Education Jobs Grant	84.410	206-029-2-0207-M	877,474
Total U.S. Department of Education			<u>6,322,487</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Health and Human Services</b>			
<u>Passed through the State Executive Office of Health and Human Services:</u>			
Medical Reserve Corps Grant Program	93.008	Not Available	3,000
School-Based Medicaid Reimbursement Program	93.778	1951726	275,564
<u>Passed through the State Department Office of Elderly Affairs:</u>			
Title IIIB - Grants for Supportive Services and Senior Centers	93.044	Not Available	3,333
<u>Passed through the State Department of Fire Services:</u>			
DFS Bioterrorism First Responder Liason Grants	93.283	DFS 2008BHAZMATRESPGRANT	18,094
<b>Total U.S. Department of Health and Human Services</b>			<u>299,991</u>
<b>U.S. Department of Homeland Security</b>			
<u>Direct Program:</u>			
Assistance to Firefighters Grant	97.044	Not Applicable	18,048
<u>Passed through the State Emergency Management Agency:</u>			
Public Assistance Grants	97.036	CDA CTFEMA1895NEWTON01272	78,554
Public Assistance Grants	97.036	CDA CTFEMA1959NEWTON00424	34,127
Public Assistance Grants	97.036	CDA CTFEMA1959NEWTON00397	414,367
<b>Total U.S. Department of Homeland Security</b>			<u>545,096</u>
<b>Total</b>			<u>\$ 11,934,083</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 cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Note 2 – U.S. Department of Agriculture**

The amount reported for the Food Distribution Program represents non-monetary assistance and is reported in the schedule at the fair market value of the commodities received. The amounts reported for the School Breakfast Program 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, 2012:

Program Description	CFDA Number	Amount
Community Development Block Grant	14.218	\$ 306,321
Emergency Shelter Grants Program	14.231	99,437
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	16,953
Safe Schools - Healthy Students Grant	84.184L	187,484
Total		\$ 610,195

**A. Summary of Auditors' Results**

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Newton, Massachusetts.
2. There were no significant deficiencies disclosed during the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements of the City of Newton, Massachusetts, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Material weaknesses in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the City of Newton, Massachusetts expresses an unqualified opinion on all major federal award programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule on pages 12-19.



7. The programs tested as major programs were:

<u>Program Description</u>	<u>CFDA Number</u>
<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
Public Safety Partnership and Community Policing Grants	16.710
ARRA - Energy Efficiency and Conservation Block Grant	81.128
<i>Special Education Cluster</i>	
SPED 94-142 Allocation	84.027
SPED - Tiered Instruction	84.027
SPED Program Improvement	84.027
SPED Early Childhood Allocation	84.173
ARRA - SPED IDEA	84.391
ARRA - Early Childhood Allocation	84.392
Safe Schools - Healthy Students Grant	84.184L
ARRA - Education Jobs Grant	84.410
Public Assistance Grants	97.036

8. The threshold used for distinguishing between Type A and B programs was \$358,022.

9. The City of Newton, Massachusetts did not qualify as a low-risk auditee.

**B. Findings - Financial Statement Audit**

None.

**C. Findings and Questioned Costs – 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 and Criteria:* The City did not comply with the eligibility and special tests and provisions compliance requirements.

*Cause:* Internal controls are not in place to ensure that the required lunch applications and income documentation obtained through the verification summary process are maintained for all students.

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

*Auditors' Recommendation:* Internal controls surrounding the federal award program must be implemented to ensure that lunch applications are maintained in the student files for all students receiving free and reduced lunches. Controls must also be implemented to maintain the income documentation obtained as part of the verification process in the students' files.

*Grantee Response:* The City of Newton has purchased a new fully integrated Free & Reduced Software program called Lunchbox. All meal applications are now being approved electronically and applications are now on file according to eligibility electronically. The income verification process for meal applications is now an automated process via the new software. As of July 1, 2012, the Newton Operations Department has a position with dedicated responsibility for meal and claim applications, including verifications and approvals as well as utilizing the new software system.

*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 and Criteria:* One of the claim 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.

*Cause:* Procedures were not in place to reconcile the claims for reimbursement to the supporting detailed records of meals served prior to submission to the DESE for that month.

*Effect:* The claim for reimbursement forms submitted to the DESE for the October 2011 claim month did not represent accurate meal counts, which were the basis for the City's reimbursements.

*Questioned Costs:* Questioned costs related to this finding total \$21.

*Auditors' Recommendation:* Procedures must be implemented to ensure that all claims for reimbursement are reconciled to the supporting detailed records of meals served, with all exceptions clearly noted, detailed and resolved.

*Grantee Response:* The October claim from 2011 has been corrected. The process for claim entry is being handled monthly by the position noted in the response to 12-1. All meal count information is collected by the automated point of service system. Meal counts for each school for the entire month are reconciled by the FSM company's revenue and meal count program. All school reports are run by the FSMC and submitted to the City of Newton for reconciliation. The city then enters all claim information into the DESE Portal. The meal counts are then reviewed by the Operations Department and submitted for claim reimbursement. All claim back up documentation is housed at the Food Service Office at the Education Center.

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

*Condition and Criteria:* 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.

*Cause:* Procedures are not in place to maintain the required lunch applications and income documentation obtained as part of the verification summary process for all students.

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

*Questioned Costs:* Questioned costs related to this finding total \$2,658.

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

*Grantee Response:* Please reference response to finding 12-1. All meal applications are now being handled via an automated system for federal grant program compliance.

## 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 and Criteria:* 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.

*Cause:* Procedures are not in place to ensure that all program income is entered into the IDIS system timely to reduce grant drawdowns.

*Effect:* The City is not in compliance with the Federal grant program income requirements.

*Questioned Costs:* There are no questioned costs associated with this finding.

*Auditors' Recommendation:* Procedures must be implemented to ensure that all program income generated is entered in IDIS timely and is used to cover total program expenses prior to drawing down additional federal funds.

*Grantee Response:* The City has adopted procedures to ensure the prompt receipt of program income receipts into the U.S. Department of Housing and Urban Development's Integrated Disbursement and Information System (IDIS). Upon the City's receipt of funds, funds are delivered to the Treasurer for deposit, and a tracking memorandum is used to ensure prompt deposit, receipt into IDIS, and credit to the proper community project. All subsequent invoice cover memos cite whether program income is available to pay the invoice. An additional internal control is in place whereby staff responsible for processing invoices maintains a file to ensure that whenever an eligible invoice is paid, a second determination is made as to whether program income is available to pay the invoice. The error cited inadvertently occurred during staff transition. The problem has been corrected, and receipts are recorded and expended timely.

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

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

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

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

*Grantee Response:* The City's Purchasing Department currently performs a routine State disbarment check on all pending contracts. We are exploring the possibility of extending this check to also routinely include the Federal excluded parties web site for all City contracts. Print - screen documentation for each inquiry will be maintained in the contract files and the City will also obtain vendor certifications that they have not been disbarred from providing goods and services to federally funded activities.

### *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 and Criteria:* Salaries charged to the grant for several employees working on grant related projects were not supported by timesheets.

*Cause:* Procedures are not in place to maintain timesheets for all City employees who worked on the grant projects.

*Effect:* The salaries charged to the grant for the employees who were missing timesheets are subject to disallowance and are considered questioned costs.

*Questioned Costs:* Questioned costs related to this finding total \$1,920.

*Auditors' Recommendation:* Procedures must be implemented to ensure that timesheets are prepared and maintained for all employees working on the grant projects and that only allowable costs are charged to the grant program.

*Grantee Response:* Timesheets were maintained, however, in this instance there was a clerical error that duplicated labor charges incurred in connection with the installation of emergency exit signs at Oak Hill Middle School and resulted in an overcharge of \$1,920 to the grant. The Public Building Department has provided the Comptroller with the journal entry information to correct this error and the charges have been removed from the grant effective November 28, 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 and Criteria:* The City does not have internal controls in place to comply with the procurement, suspension and debarment compliance requirements related to the program.

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

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

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

*Grantee Response:* The City's Purchasing Department currently performs a routine State disbarment check on all pending contracts. We are exploring the possibility of extending this check to also routinely include the Federal excluded parties web site for all City contracts. Print - screen documentation for each inquiry will be maintained in the contract files and the City will also obtain vendor certifications that they have not been disbarred from providing goods and services to federally funded activities.

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

*Cause:* Internal controls are not in place to maintain the payment requests and the accounting records supporting them.

*Effect:* Noncompliance with the federal award program's cash management and reporting compliance requirements could occur and not be detected and corrected timely.

*Auditors' Recommendation:* Internal controls surrounding the federal award program must be implemented to maintain the payment requests submitted to the DOE as well as the related supporting documentation.

*Grantee Response:* The Public Buildings Department keeps electronic records for Federal Grants on the department's server. As requested, supporting documentation for payment requests for this project were sent to Sullivan, Rogers & Company LLC via email on November 8<sup>th</sup> and 9<sup>th</sup> of 2012. Despite best efforts, we were unable print out a copy of the payment request form from the Federal Department of Treasury Automated Standard Application for Payment (ASAP) system. Copies of the ASAP Payment Transaction Confirmation and Account Settlement Report that document when payment requests were submitted have been offered as an alternative.

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

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

*Cause:* Internal controls are not in place to prepare the financial reports submitted to the DOE based upon the activity recorded in the general ledger.

*Effect:* Noncompliance with the federal award program's reporting compliance requirements could occur and not be detected and corrected timely.

*Auditors' Recommendation:* Procedures must be implemented to reconcile all financial reports to the City's general ledger prior to submission. Controls should also be implemented to ensure that the financial reports are reviewed for accuracy and approved by the City Comptroller's office prior to submission.

*Grantee Response:* As a result of a misunderstanding on the part of the Public Building Department the reports were not submitted to the Comptroller for reconciliation to the City's general ledger prior to submission.

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

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

*Cause:* Internal controls are not in place to label the equipment as being funded from federal grant funds and to perform the required physical inventory each year.

*Effect:* Noncompliance with the federal award program's equipment and real property management compliance requirements could occur and not be detected and corrected timely.

*Auditors' Recommendation:* Internal controls surrounding the federal award program must be implemented to ensure that the equipment purchased with the grant funds is properly identified as being funded from federal grant funds and that the City performs a physical inventory each year, which is reconciled with the inventory records.

*Grantee Response:* The 29 pieces of equipment listed have been tagged and labeled as federally funded equipment as noted and were inventoried on November 15, 2012.

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

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

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

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

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

*Grantee Response:* The City's Purchasing Department currently performs a routine State disbarment check on all pending contracts. We are exploring the possibility of extending this check to also routinely include the Federal excluded parties web site for all City contracts. Print - screen documentation for each inquiry will be maintained in the contract files and the City will also obtain vendor certifications that they have not been disbarred from providing goods and services to federally funded activities.

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

*Cause:* Procedures are not in place to maintain the payment requests and supporting documentation.

*Effect:* As a result of the required documentation not being maintained, we could not verify the City's compliance with the federal grant cash management requirements.

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

*Auditors' Recommendation:* Procedures must be implemented to ensure that the required payment requests and supporting documentation are maintained to support the City's compliance with the grant's cash management requirements.

*Grantee Response:* The Public Buildings Department keeps electronic records for Federal Grants on the department's server. As requested, supporting documentation for payment requests for this project were sent to Sullivan, Rogers & Company LLC via email on November 8<sup>th</sup> and 9<sup>th</sup> of 2012. Despite best efforts, we were unable print out a copy of the payment request form from the Federal Department of Treasury Automated Standard Application for Payment (ASAP) system. Copies of the ASAP Payment Transaction Confirmation and Account Settlement Report that document when payment requests were submitted have been offered as an alternative.

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

*Condition and Criteria:* 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.

*Cause:* Policies and procedures are not in place to reconcile the financial reports to the City's general ledger prior to submission.

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

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

*Auditors' Recommendation:* Procedures must be implemented to ensure that the financial reports are reconciled to the general ledger prior to submission and represent accurate information.

*Grantee Response:* As a result of a misunderstanding on the part of the Public Building Department the reports were not submitted to the Comptroller for reconciliation to the City's general ledger prior to submission.



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

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

*Cause:* Procedures are not in place to properly label the equipment purchased with the grant funds and to perform the required annual physical inventories.

*Effect:* Program management is not in compliance with the federal grant equipment and real property management requirements.

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

*Auditors' Recommendation:* Procedures must be implemented to ensure that the equipment with a per-unit cost of \$5,000 or more purchased with federal ARRA grant funds is labeled as federally funded equipment. Procedures must also be implemented to perform annual physical inventories of the equipment purchased with the grant funds and to reconcile the results with the City's inventory records.

*Grantee Response:* The 29 pieces of equipment listed have been tagged and labeled as federally funded equipment as noted and were inventoried on November 15, 2012.

#### D. Summary of Prior Audit Findings

##### MAJOR FEDERAL AWARD PROGRAMS AUDIT

##### Department of Agriculture

##### *Material Weaknesses in the Internal Control over Major Programs*

- 11-1 Child Nutrition Cluster - CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2011

*Condition:* There was no evidence to support that the Food Services Director (or other supervisory personnel) reviewed and approved the claims for reimbursement and supporting documentation (i.e., "FP-9 Forms" and daily lunch records) prior to submission to the Massachusetts Department of Elementary and Secondary Education (DESE).

*Current Status:* This finding has been resolved.

- 11-2 Child Nutrition Cluster - CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2011

*Condition:* The City did not comply with the reporting and allowable costs/cost principles compliance requirements related to the program.

*Current Status:* This finding has been resolved.

***Noncompliance Related to Major Programs***

- 11-3 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2011

*Condition:* Program management reported all lunches served in the claims for reimbursement submitted to the DESE, even if they did not contain the required nutrient levels and components.

*Current Status:* This finding has been resolved.

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

- 11-4 HOME Investment Partnerships Program – CFDA No. 14.239; Fiscal year ended June 30, 2011

*Condition:* One of the members of the West Metro HOME Consortium, the City of Waltham, did not comply with MGL Chapter 30, Section B (Uniform Procurement Act) when procuring construction services from one of the grant program's vendors.

*Current Status:* This finding has been resolved.

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

- 11-5 ARRA – Energy Efficiency and Conservation Block Grant Program – CFDA No. 81.128;  
Fiscal year ended June 30, 2011

*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 status has remained unchanged. Please see current year Finding 12-8.

- 11-6 ARRA - Energy Efficiency and Conservation Block Grant Program – CFDA No. 81.128;  
Fiscal year ended June 30, 2011

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

*Current Status:* The status has remained unchanged. Please see current year Finding 12-9.

- 11-7 ARRA - Energy Efficiency and Conservation Block Grant Program – CFDA No. 81.128;  
Fiscal year ended June 30, 2011

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

*Current Status:* The status has remained unchanged. Please see current year Finding 12-10.

*Noncompliance Related to Major Programs*

- 11-8 ARRA - Energy Efficiency and Conservation Block Grant Program – CFDA No. 81.128;  
Fiscal year ended June 30, 2011

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

*Current Status:* The status has remained unchanged. Please see current year Finding 12-12.

- 11-9 ARRA - Energy Efficiency and Conservation Block Grant Program – CFDA No. 81.128;  
Fiscal year ended June 30, 2011

*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 status has remained unchanged. Please see current year Finding 12-13.

- 11-10 ARRA - Energy Efficiency and Conservation Block Grant Program – CFDA No. 81.128;  
Fiscal year ended June 30, 2011

*Condition:* The equipment purchased with the federal ARRA Grant funds is not segregated in the City's inventory listing and labeled as ARRA Grant funded equipment.

*Current Status:* The City has implemented procedures to segregate the federal equipment in the inventory listing. However, the status has remained unchanged regarding the labeling of the federal equipment. Please see current year Finding 12-14.