

CITY OF NEWTON, MASSACHUSETTS
REPORTS ON FEDERAL AWARD PROGRAMS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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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 were engaged to audit the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Newton, Massachusetts, as of and for the year ended June 30, 2005 (except for the Newton Contributory Retirement System and the Newton Commonwealth Foundation, Inc., which are as of and for the fiscal year ended December 31, 2004, and the Newton Schools Foundation, Inc., which is as of and for the fiscal year ended June 30, 2004), which collectively comprise the City of Newton, Massachusetts' basic financial statements and have issued our report thereon dated October 20, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

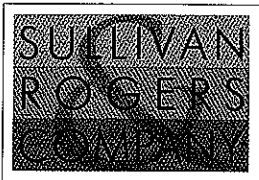
As part of obtaining reasonable assurance about whether the City of Newton, Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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*.

However, we noted certain matters that we reported to management of the City of Newton, Massachusetts in a separate letter dated October 20, 2005.

This report is intended solely for the information and use of the audit committee, management, 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.

Sullivan, King & Company, LLC

October 20, 2005



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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and 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, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Newton, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Newton, Massachusetts' management. Our responsibility is to express an opinion on the City of Newton, Massachusetts' 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 of Newton, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Newton, Massachusetts' compliance with those requirements.

In our opinion, the City of Newton, Massachusetts, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

However, the results of our auditing procedures disclosed several instances of noncompliance with those requirements that 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 05-1, 05-2, 05-3, and 05-4.

Internal Control Over Compliance

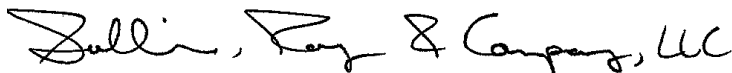
The management of the City of Newton, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Newton, Massachusetts' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Newton, Massachusetts, as of and for the year ended June 30, 2005 (except for the Newton Contributory Retirement System and the Newton Commonwealth Foundation, Inc., which are as of and for the fiscal year ended December 31, 2004, and the Newton Schools Foundation, Inc., which is as of and for the fiscal year ended June 30, 2004), and have issued our report thereon dated October 20, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Newton, Massachusetts' basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, 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.



October 20, 2005

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
<u>Direct Program:</u>		
Food Distribution Program	10.550	\$ 106,617
Urban Forestry	10.675	16,207
<u>Passed through State Department of Education:</u>		
School Breakfast Program	10.553	43,879
National School Lunch Program	10.555	368,924
Total U.S. Department of Agriculture		<u>535,627</u>
U.S. Department of Housing and Urban Development		
<u>Direct Programs:</u>		
Community Development Block Grant	14.218	3,419,475
Emergency Shelter Grant	14.231	85,678
HOME Investment Partnerships Program	14.239	1,340,289
Total U.S. Department of Housing and Urban Development		<u>4,845,442</u>
U.S. Department of the Interior		
<u>Passed through the Massachusetts Division of Marine Fisheries:</u>		
Outdoor Recreation, Acquisition, Development and Planning	15.916	<u>105,253</u>
U.S. Department of Justice		
<u>Passed through the State Executive Office of Public Safety:</u>		
DNC Convention Security	16.580	53,455
Law Enforcement Block Grant	16.592	13,382
National Incident Based Reporting System Grant	16.607	12,500
COPS Homeland Security Overtime Grant	16.614	4,346
Total U.S. Department of Justice		<u>83,683</u>
Institute of Museum and Library Services		
<u>Direct Program:</u>		
Museum for America Grant	45.301	15,379
<u>Passed through the State Library Board of Commissioners:</u>		
Library Services and Technology Grant	45.310	16,244
Total Institute of Museum and Library Services		<u>31,623</u>
Environmental Protection Agency		
<u>Passed through the State Executive Office of Environmental Affairs:</u>		
Environmental Education Grant	66.951	<u>11,435</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	Federal CFDA Number	Federal Expenditures
U.S. Department of Education		
<u>Direct Programs:</u>		
American History Grant	84.215	152,562
Small Learning Communities	84.215L	118,950
<u>Passed through the State Department of Education:</u>		
Title One Distribution	84.010	627,239
SPED 94-142 Allocation	84.027	2,492,042
SPED Curriculum Frameworks	84.027	75,916
Secondary Reading Grant	84.027	1,740
Carl Perkins Occupational Education	84.048	61,253
SPED Early Childhood Training	84.173	72,982
Safe and Drug-Free Schools	84.186	47,842
Innovative Education Program	84.298	26,058
Technical Literacy Grant	84.318	16,671
Comprehensive School Reform Grant	84.332	24,451
Title III - No Child Left Behind Grant	84.365	104,643
Improving Teacher Quality	84.367	277,550
Total U.S. Department of Education		<u>4,099,899</u>
U.S. Department of Health and Human Services		
<u>Passed through the State Department Office of Elderly Affairs:</u>		
Title III F Senior Fitness Grant	93.043	<u>1,157</u>
Centers for Disease Control and Prevention		
<u>Passed through the State Executive Office of Health and Human Services:</u>		
Public Health Emergency Preparedness Grant	93.996	<u>19,692</u>
Corporation for National and Community Service		
<u>Passed through the State Department of Education:</u>		
Learn and Serve Grant	94.004	<u>10,780</u>
U.S. Department of Homeland Security		
<u>Passed through the State Executive Office of Public Safety:</u>		
Homeland Security Preparedness Technical Assistance	97.007	11,999
<u>Passed through the State Office of Emergency Management:</u>		
Emergency Food/Shelter	97.024	34,128
Public Assistant Grant	97.036	654,173
Emergency Management Assistance Grant	97.042	<u>12,816</u>
Total U.S. Department of Homeland Security		<u>713,116</u>
Total		<u>\$ 10,457,707</u>

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 Programs

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.

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 reportable conditions disclosed during the audit of the 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. There were no reportable conditions disclosed during the audit of the major federal award programs.
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 9 - 11.
7. The programs tested as major programs included:

<u>Program Description</u>	<u>CFDA Number</u>
<i>Child Nutrition Cluster:</i>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Community Development Block Grant	14.218
Title One Distribution	84.010
<i>Special Education Cluster:</i>	
SPED 94-142 Allocation	84.027
SPED Curriculum Frameworks	84.027
Secondary Reading Grant	84.027
SPED Early Childhood Training	84.173
Improving Teacher Quality	84.367

8. The threshold used for distinguishing between Type A and B programs was \$313,731.
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 EDUCATION***Findings*

05-1 Special Education Cluster – CFDA No.’s 84.027 and 84.173; Fiscal year ended June 30, 2005

Condition and Criteria: The financial reports submitted to the Massachusetts Department of Education 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. This condition is a violation of the financial reporting requirements prescribed in Section 20 of the OMB Common Rule.

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

Effect: As a result of reconciliations not being performed prior to submission of financial reports, management is not in compliance with OMB Circular A-133 requirements. The awarding agencies could limit or refuse grant awards due to inadequate financial reporting systems.

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

Auditor’s Recommendation: Procedures must be implemented to reconcile financial reports to the general ledger prior to submission.

Grantee Response: In FY05, the Requests for Funds were submitted using information compiled on spreadsheets which included transactions not yet processed in the General Ledger. Since July 2005, all Requests for Funds match the General Ledger. A reconciliation form to tie the spreadsheet to the Ledger for each grant has been implemented as of November 2005.

05-2 Title One Distribution – CFDA No. 84.010; Fiscal year ended June 30, 2005

Condition and Criteria: The financial reports submitted to the Massachusetts Department of Education 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. This condition is a violation of the financial reporting requirements prescribed in Section 20 of the OMB Common Rule.

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

Effect: As a result of reconciliations not being performed prior to submission of financial reports, management is not in compliance with OMB Circular A-133 requirements. The awarding agencies could limit or refuse grant awards due to inadequate financial reporting systems.

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

Auditor’s Recommendation: Procedures must be implemented to reconcile financial reports to the general ledger prior to submission.

Grantee Response: In FY05, the Requests for Funds were submitted using information compiled on spreadsheets which included transactions not yet processed in the General Ledger. Since July 2005, all Requests for Funds match the General Ledger. A reconciliation form to tie the spreadsheet to the Ledger for each grant has been implemented as of November 2005.

05-3 Improving Teacher Quality – CFDA No. 84.367; Fiscal year ended June 30, 2005

Condition and Criteria: The financial reports submitted to the Massachusetts Department of Education 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. This condition is a violation of the financial reporting requirements prescribed in Section 20 of the OMB Common Rule.

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

Effect: As a result of reconciliations not being performed prior to submission of financial reports, management is not in compliance with OMB Circular A-133 requirements. The awarding agencies could limit or refuse grant awards due to inadequate financial reporting systems.

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

Auditor’s Recommendation: Procedures must be implemented to reconcile financial reports to the general ledger prior to submission.

Grantee Response: In FY05, the Requests for Funds were submitted using information compiled on spreadsheets which included transactions not yet processed in the General Ledger. Since July 2005, all Requests for Funds match the General Ledger. A reconciliation form to tie the spreadsheet to the Ledger for each grant has been implemented as of November 2005.

DEPARTMENT OF AGRICULTURE

05-4 Child Nutrition Cluster – CFDA No.’s 10.553 and 10.555; Fiscal year ended June 30, 2005

Condition and Criteria: The claims for reimbursement forms submitted to the Commonwealth of Massachusetts’ Department of Education (DOE) were not always supported by proper documentation. We identified several instances where the number of lunches served, as reported to the DOE, did not agree to the detailed breakdown of school lunch activity.

Cause: Policies and procedures are not in place to reconcile claims for reimbursement to the supporting detailed records of lunches served prior to submission to the DOE.

Effect: As a result of reconciliations not being performed prior to submission of claims for reimbursement, management is not in compliance with OMB Circular A-133 requirements. The awarding agencies could limit or refuse grant awards due to inadequate financial reporting systems.

Questioned Costs: Questioned costs related to this finding total \$1,700.

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

Grantee Response: Management is in agreement with the auditors' recommendation and will work to put procedures in place to resolve the finding.

D. Summary of Prior Audit Findings

04-1 Material Weakness - Reconciliation of Cash and Accounts Receivable

Condition: Individual bank reconciliations, the reconciliation of cash between the Treasurer's cashbook and general ledger and accounts receivable (i.e., real estate, personal property, etc.) reconciliations between the Treasurer/Collector and the Comptroller were not performed timely during the fiscal year.

Current Status: Procedures have been implemented alleviate the material weakness.

04-2 Special Education Cluster – CFDA No.'s 84.027 and 84.173; Fiscal year ended June 30, 2004 Title One Distribution – CFDA No. 84.010; Fiscal year ended June 30, 2004

Condition: Program management did not maintain the required documentation related to the support of salaries and wages related to its major programs as prescribed in OMB Circular A-87, *Cost Principals for State, Local and Indian Tribal Governments*. Procedures to ensure accountability for authorization of federal grant charges must be in place to determine allowable costs and cost principles.

Current Status: Program management is currently maintaining documentation related to the support of salaries and wages related to its major programs as prescribed in OMB Circular A-87, *Cost Principals for State, Local and Indian Tribal Governments*.

04-3 Special Education Cluster – CFDA No.'s 84.027 and 84.173; Fiscal year ended June 30, 2004 Title One Distribution – CFDA No. 84.010; Fiscal year ended June 30, 2004

Condition: The financial reports submitted to the Massachusetts Department of Education 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. This condition is a violation of the financial reporting requirements prescribed in Section 20 of the OMB Common Rule.

Current Status: The status has remained unchanged and findings have been reported in the current year Schedule of Findings and Questioned Costs as items 05-1 and 05-2.

04-4 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2004

Condition: The claims for reimbursement forms submitted to the Commonwealth of Massachusetts' Department of Education (DOE) were not always supported by proper documentation. We noted several instances where the number of lunches served, as reported to the DOE, did not agree to the detailed breakdown of school lunch activity.

Current Status: The status has remained unchanged and a finding has been reported in the current year Schedule of Findings and Questioned Costs as item 05-4.