

CITY OF NEWTON, MASSACHUSETTS
REPORTS ON FEDERAL AWARD PROGRAMS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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TABLE OF CONTENTS

	Page
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	1
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9



Certified Public Accountants

SULLIVAN, ROGERS & COMPANY, LLC

Corporate Place I, Suite 204 • 99 South Bedford Street

Burlington, Massachusetts 01803

P • 781-229-5600 F • 781-229-5610 www.sullivan-rogers.com

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, 2008 (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, 2007, and the Newton Schools Foundation, Inc., which is as of and for the fiscal year ended June 30, 2007), which collectively comprise the City of Newton, Massachusetts' basic financial statements and have issued our report thereon dated March 10, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Newton, Massachusetts' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Newton, Massachusetts' financial statements that is more than inconsequential will not be prevented or detected by the City of Newton, Massachusetts' internal control. We consider the deficiencies described in items 08-1 and 08-2 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Newton, Massachusetts' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies as described in items 08-1 and 08-2 in the accompanying schedule of findings and questioned costs to be material weaknesses.

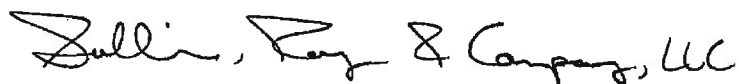
Compliance and Other Matters

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*.

We noted certain matters that we reported to management of the City of Newton, Massachusetts, in a separate letter dated March 10, 2009.

The City of Newton, Massachusetts' 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 of Newton, Massachusetts' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Audit Committee, 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.



March 10, 2009



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**Independent Auditors' Report on Compliance with Requirements Applicable to 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 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 fiscal year ended June 30, 2008. 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 of 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 fiscal year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Newton, Massachusetts 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 of Newton, Massachusetts' internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Newton, Massachusetts' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

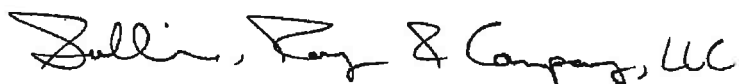
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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, 2008 (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, 2007, and the Newton Schools Foundation, Inc., which is as of and for the fiscal year ended June 30, 2007), and have issued our report thereon dated March 10, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Newton, Massachusetts' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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 management, the Audit Committee, 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.



March 10, 2009

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
<u>Passed through the State Department of Education:</u>			
Food Distribution Program	10.550	09-207	\$ 99,178
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	09-207	404,385
National School Lunch Program	10.555	09-207	<u>50,020</u>
Total U.S. Department of Agriculture			<u>553,583</u>
U.S. Department of Housing and Urban Development			
<u>Direct Programs:</u>			
Community Development Block Grant	14.218	Not Applicable	2,653,671
Emergency Shelter Grants Program	14.231	Not Applicable	99,081
Supportive Housing Program	14.235	Not Applicable	2,699
HOME Investment Partnerships Program	14.239	Not Applicable	4,333,758
Fair Housing Initiatives Program	14.408	Not Applicable	<u>57,503</u>
Total U.S. Department of Housing and Urban Development			<u>7,146,712</u>
U.S. Department of Justice			
<u>Passed through the State Executive Office of Public Safety:</u>			
Law Enforcement Block Grant	16.592	Not available	<u>14,620</u>
Institute of Museum and Library Services			
<u>Direct Program:</u>			
Museum for America Grant	45.301	Not Applicable	11,309
<u>Passed through the State Library Board of Commissioners:</u>			
Library Services and Technology Grant	45.310	8NEWTONFREELOOSE0000	<u>14,656</u>
Total Institute of Museum and Library Services			<u>25,965</u>
Environmental Protection Agency			
<u>Passed through the State Executive Office of Environmental Affairs:</u>			
Environmental Education Grant	66.951	Not available	<u>501</u>
U.S. Department of Energy			
<u>Direct Program:</u>			
Solar Energy Demonstration Grant	81.117	Not Applicable	<u>1,955</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
<u>Direct Programs:</u>			
Emergency Response Crisis Management Grant	84.184E	Not Applicable	186,903
School Counseling Demonstration Grant	84.215E	Not Applicable	365,887
Physical Education Grant	84.215F	Not Applicable	163,613
Small Learning Communities Program	84.215L	Not Applicable	121,886
Interface Program	84.215M	Not Applicable	459
Teaching American History Grant	84.215X	Not Applicable	212,111
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Title One Distribution (fiscal year 2007)	84.010	305-064-7-0207-H	70,695
Title One Distribution (fiscal year 2008)	84.010	305-206-8-0207-I	390,573
Title One Carryover Grant	84.010	305-330-8-0207-I	63,694
<u>Special Education Cluster:</u>			
SPED 94-142 Allocation (fiscal year 2007)	84.027	240-041-7-0207-H	120,313
SPED 94-142 Allocation (fiscal year 2008)	84.027	240-028-8-0207-I	2,714,603
Secondary Reading Grant (fiscal year 2007)	84.027	267-016-7-0207-H	22,123
Secondary Reading Grant (fiscal year 2008)	84.027	267-029-8-0207-I	12,817
SPED Program Improvement (fiscal year 2007)	84.027	274-118-7-0207-H	57,293
SPED Program Improvement (fiscal year 2008)	84.027	274-099-8-0207-I	43,877
<u>Passed through the State Department of Early Education and Care:</u>			
SPED Early Childhood Training (fiscal year 2007)	84.173	26207 NEWTONPUBLICSCH	1,414
SPED Early Childhood Training (fiscal year 2008)	84.173	26208 NEWTONPUBLICSCH	70,295
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Carl Perkins Occupational Education (fiscal year 2007)	84.048	400-072-7-0207-H	25,076
Carl Perkins Occupational Education (fiscal year 2008)	84.048	400-068-8-0207-I	34,584
Safe and Drug-Free Schools (fiscal year 2007)	84.186	331-050-7-0207-H	12,851
Safe and Drug-Free Schools (fiscal year 2008)	84.186	331-117-8-0207-I	34,689
Innovative Education Program (fiscal year 2007)	84.298	302-143-7-0207-H	4,412
Innovative Education Program (fiscal year 2008)	84.298	302-147-8-0207-I	7,037
Technical Literacy Grant (fiscal year 2007)	84.318	160-068-7-0207-H	8,075
Title III - English Language Acquisition (fiscal year 2007)	84.365	180-008-7-0207-H	15,232
Title III - English Language Acquisition (fiscal year 2008)	84.365	180-022-8-0207-I	116,616
Title IIA - Improving Teacher Quality (fiscal year 2007)	84.367	140-054-7-0207-H	104,909
Title IIA - Improving Teacher Quality (fiscal year 2008)	84.367	140-232-8-0207-I	207,280
Total U.S. Department of Education			<u>5,189,317</u>
U.S. Department of Health and Human Services			
<u>Passed through the State Executive Office of Health and Human Services:</u>			
School-Based Medicaid Reimbursement Program	93.778	1951726	<u>299,556</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</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	Not available	<u>35,071</u>
Corporation for National and Community Service			
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Learn and Serve Grant (fiscal year 2007)	94.004	354-022-7-0207-H	862
Learn and Serve Grant (fiscal year 2008)	94.004	354-029-8-0207-I	<u>3,547</u>
Total Corporation for National and Community Service			<u>4,409</u>
U.S. Department of Homeland Security			
<u>Passed through the State Executive Office of Public Safety:</u>			
State Homeland Security Program (MAPC Pass-Through)	97.073	Not available	3,335
<u>Passed through the State Office of Emergency Management:</u>			
Public Assistance Grants	97.036	CDA 8OUTSIDESECT38MAYFLD	<u>5,745</u>
Total U.S. Department of Homeland Security			<u>9,080</u>
Total			<u>\$ 13,280,769</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 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.

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

The amount reported for the School-Based Medicaid Reimbursement Program represents federal cash receipts.

Note 4 - U.S. Department of Homeland Security

The amount reported for the Public Assistance Grants program represents federal cash receipts.

Note 5 - Sub-recipients

The City of Newton, Massachusetts provided the following awards to sub-recipients for the fiscal year ended June 30, 2008:

<u>Program Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 819,602
Emergency Shelter Grants Program	14.231	99,081
HOME Investment Partnerships Program	14.239	<u>7,250</u>
		<u>\$ 925,933</u>

A. Summary of Auditors’ Results

1. The auditors’ report expresses an unqualified opinion on the financial statements of the City of Newton, Massachusetts.
2. Significant deficiencies considered to be material weaknesses disclosed during the audit of the financial statements are reported in the Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the City of Newton, Massachusetts, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. There were no significant deficiencies 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. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
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
Community Development Block Grant	14.218
HOME Investment Partnerships Program	14.239
Title One Distribution	84.010
Title One Carryover Grant	84.010
Title III - English Language Acquisition Grants	84.365

8. The threshold used for distinguishing between Type A and B programs was \$398,423.
9. The City of Newton, Massachusetts did not qualify as a low-risk auditee.

B. Findings – Financial Statement Audit*Significant Deficiencies Considered to be Material Weaknesses*

08-1 Cash Disbursements

Condition: The municipal finance laws of the Commonwealth require prior approval of the Comptroller and Mayor for all disbursements from the City treasury. The source document for this approval and for updating the general ledger is a disbursement warrant that is prepared by the Comptroller's Office. Certain time sensitive disbursements such as state and federal payroll tax withholdings and debt service payments are, however, routinely wired by the Treasurer and subsequently reported to the Comptroller for placement on a "checkless" warrant. We identified that procedures are not in place to consistently report "checkless" disbursements to the Comptroller's Office.

Criteria: Effective internal controls require the timely reporting of all cash receipt and disbursement activity to the Comptroller's Office. Failure to perform this task timely inhibits the safeguarding of assets and impedes accurate and timely financial reporting.

Effect: Misstatements due to error or fraud may occur and not be detected timely. Our audit identified one "checkless" disbursement, totaling approximately \$400,000, which was not reported to the Comptroller's Office during the fiscal year.

Auditors' Recommendation: We recommend that procedures be implemented to report "checkless" disbursements to the Comptroller's Office timely (as they occur).

Response: The Treasurer's office has implemented new procedures for reporting check-less warrants with reduced staffing. The system will be monitored for effectiveness and improvement as needed.

08-2 Reconciliation of Bank Accounts

Condition: Procedures are not in place to investigate and resolve reconciling items between individual bank accounts and the Treasurer's cash book balance timely.

Criteria: Effective internal controls require the timely investigation and resolution of reconciling items.

Effect: Misstatements due to error or fraud may occur and not be detected timely. Our audit identified one "checkless" disbursement (described in item 08-1 above), totaling approximately \$400,000, which was not reported to the Comptroller's Office during the fiscal year.

Auditors' Recommendation: We recommend that procedures be implemented to investigate and resolve reconciling items between individual bank accounts and the Treasurer's cash book by the end of the subsequent month.

Response: It is expected that this problem will be specifically addressed by the addition of staff, namely the Deputy Treasurer.

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

None.

D. Summary of Prior Audit Findings**FINANCIAL STATEMENT AUDIT***Significant Deficiencies Considered to be Material Weaknesses*

07-1 Financial Reporting System

Conditions: Although procedures (internal controls) were in place to perform timely reconciliations of the Treasurer's cash book to the general ledger; procedures were not in place to reconcile individual bank account balances to the Treasurer's cash book timely. In addition, procedures were not in place to reconcile the Collector's accounts receivable balances to the general ledger timely.

Current Status: Although the timeliness of individual bank reconciliations improved during the year, procedures are not in place to investigate and resolve reconciling items timely. Please see current year finding 08-2. The timeliness of accounts receivable reconciliations has not changed and is reported in the current year management letter.

MAJOR FEDERAL AWARD PROGRAMS AUDIT**Department of Education***Finding*

- 07-2 Small Learning Communities Program – CFDA No. 84.215L; Fiscal year ended June 30, 2007
Interface Program – CFDA No. 84.215M; Fiscal year ended June 30, 2007
Teaching American History Grant – CFDA No. 84.215X; Fiscal year ended June 30, 2007

Condition: Some of the contractual service expenditures obligated during fiscal year 2007 related to contracts that were procured in fiscal year 2006. During fiscal year 2006, program management did not use formal advertising to solicit open competition for purchases of contractual services related to its major programs, as prescribed in MGL Chapter 30, Section B (Uniform Procurement Act). The state procurement standards for municipalities outlined in MGL Chapter 30, Section B (Uniform Procurement Act) are more stringent than the relevant federal standards. Therefore, the Department of Education requires grantees to follow state procurement policies when procuring goods and services related to federal grants.

Current Status: This finding has been resolved.

Department of Agriculture*Finding*

- 07-3 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2007

Condition: The claim for reimbursement forms submitted to the Commonwealth of Massachusetts' Department of Education (DOE) were not always supported by proper documentation.

Current Status: This finding has been resolved.