

CITY OF NEWTON, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

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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, 2009 (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, 2008, and the Newton Schools Foundation, Inc., which is as of and for the fiscal year ended June 30, 2008), which collectively comprise the City of Newton, Massachusetts' basic financial statements and have issued our report thereon dated January 12, 2010, which was qualified for unaudited information related to the Newton Schools Foundation, Inc. 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in item 09-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency 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 deficiency as described in item 09-1 in the accompanying schedule of findings and questioned costs to be a material weakness.

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 January 12, 2010.

The City of Newton, Massachusetts' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Newton, Massachusetts' response and, accordingly, we express no opinion on it.

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.



January 12, 2010



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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, 2009. 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, 2009.

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, 2009 (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, 2008, and the Newton Schools Foundation, Inc., which is as of and for the fiscal year ended June 30, 2008), and have issued our report thereon dated January 12, 2010, which was qualified for unaudited information related to the Newton Schools Foundation, Inc. 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.



January 12, 2010

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<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	\$ 116,281
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	09-207	52,045
National School Lunch Program	10.555	09-207	<u>388,327</u>
Total U.S. Department of Agriculture			<u>556,653</u>
U.S. Department of Housing and Urban Development			
<u>Direct Programs:</u>			
Community Development Block Grant	14.218	Not Applicable	2,161,969
Emergency Shelter Grants Program	14.231	Not Applicable	97,806
HOME Investment Partnerships Program	14.239	Not Applicable	2,065,548
Fair Housing Initiatives Program	14.408	Not Applicable	<u>23,297</u>
Total U.S. Department of Housing and Urban Development			<u>4,348,620</u>
U.S. Department of Justice			
<u>Passed through the State Executive Office of Public Safety:</u>			
JAG Byrne Memorial Program	16.580	Not available	10,472
DEA Asset Forfeitures	16.unk	Not available	<u>8,340</u>
Total U.S. Department of Justice			<u>18,812</u>
Institute of Museum and Library Services			
<u>Direct Program:</u>			
Museum for America Grant	45.301	Not Applicable	28,073
<u>Passed through the State Library Board of Commissioners:</u>			
Library Services and Technology Grant	45.310	Not available	<u>7,661</u>
Total Institute of Museum and Library Services			<u>35,734</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<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	32,414
Safe Schools/Healthy Students Grant	84.184L	Not Applicable	1,169,457
School Counseling Demonstration Grant	84.215E	Not Applicable	377,392
Physical Education Grant	84.215F	Not Applicable	259,332
Small Learning Communities Program	84.215L	Not Applicable	860
Teaching American History Grant	84.215X	Not Applicable	383,293
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Title One Distribution (fiscal year 2008)	84.010	305-206-8-0207-I	79,848
Title One Carryover (fiscal year 2009)	84.010	305-434-9-0207-J	29,969
Title One Distribution (fiscal year 2009)	84.010	305-111-9-0207-J	631,918
<u>Special Education Cluster:</u>			
SPED 94-142 Allocation (fiscal year 2008)	84.027	240-028-8-0207-I	15,990
SPED 94-142 Allocation (fiscal year 2009)	84.027	240-142-9-0207-J	2,771,517
Secondary Reading Grant (fiscal year 2008)	84.027	267-029-8-0207-I	18,856
SPED Program Improvement (fiscal year 2008)	84.027	274-099-8-0207-I	25,711
SPED Program Improvement (fiscal year 2009)	84.027	274-255-9-0207-J	13,664
SPED Corrective Action (fiscal year 2008)	84.027	252-056-8-0207-I	8,500
<u>Passed through the State Department of Early Education and Care:</u>			
SPED Early Childhood Training (fiscal year 2008)	84.173	26208 NEWTONPUBLICSCH	4,048
SPED Early Childhood Training (fiscal year 2009)	84.173	26209 NEWTONPUBLICSCH	64,768
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Carl Perkins Occupational Education (fiscal year 2008)	84.048	400-068-8-0207-I	51,069
Carl Perkins Occupational Education (fiscal year 2009)	84.048	400-037-9-0207-J	62,667
Safe and Drug-Free Schools (fiscal year 2008)	84.186	331-117-8-0207-I	1,103
Safe and Drug-Free Schools (fiscal year 2009)	84.186	331-159-9-0207-J	35,566
Innovative Education Program (fiscal year 2008)	84.298	302-147-8-0207-I	1,039
Technical Literacy Grant (fiscal year 2008)	84.318	160-073-8-0207-I	9,765
Technical Literacy Grant (fiscal year 2009)	84.318	160-129-9-0207-J	3,017
Title III - English Language Acquisition (fiscal year 2008)	84.365	180-022-8-0207-I	8,821
Title III - English Language Acquisition (fiscal year 2009)	84.365	180-028-9-0207-J	109,345
Title IIA - Improving Teacher Quality (fiscal year 2008)	84.367	140-232-8-0207-I	60,331
Title IIA - Improving Teacher Quality (fiscal year 2009)	84.367	140-086-9-0207-J	177,780
American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Fund (SFSF)	84.394	782-128-9-0207-J	<u>1,520,739</u>
Total U.S. Department of Education			<u>7,928,779</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	332,951
<u>Passed through the State Department Office of Elderly Affairs:</u>			
Title IIIC - Nutrition Services	93.045	Not available	<u>2,644</u>
Total U.S. Department of Health and Human Services			<u>335,595</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

<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>17,032</u>
Corporation for National and Community Service			
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Learn and Serve Grant (fiscal year 2008)	94.004	354-029-8-0207-I	452
Learn and Serve Grant (fiscal year 2009)	94.004	354-027-9-0207-J	<u>3,906</u>
Total Corporation for National and Community Service			<u>4,358</u>
U.S. Department of Homeland Security			
<u>Direct Program:</u>			
Assistance to Firefighters Grant	97.044	Not Applicable	173,857
<u>Passed through the City of Beverly:</u>			
State Homeland Security Training Grant	97.073	Not available	11,459
<u>Passed through the State Office of Emergency Management:</u>			
Public Assistance Grants	97.036	CDA 09FEMA1813NEWT000843	<u>20,071</u>
Total U.S. Department of Homeland Security			<u>205,387</u>
Total			\$ <u>13,450,970</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 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, 2009:

<u>Program Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 390,803
Emergency Shelter Grants Program	14.231	<u>97,806</u>
		<u>\$ 488,609</u>

A. Summary of Auditors' Results

1. The auditors' report expresses a qualified opinion on the financial statements of the City of Newton, Massachusetts, for reporting unaudited information related to the Newton Schools Foundation, Inc., an aggregate discretely presented component unit.
2. A significant deficiency considered to be a material weakness disclosed during the audit of the financial statements is 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
<i>Special Education Cluster:</i>	
SPED 94-142 Allocation	84.027
SPED Program Improvement	84.027
Secondary Reading Grant	84.027
SPED Corrective Action	84.027
SPED Early Childhood Training	84.173
Safe Schools/Healthy Students Grant	84.184L
American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Fund (SFSF)	84.394
School-Based Medicaid Reimbursement Program	93.778

8. The threshold used for distinguishing between Type A and B programs was \$403,529.
9. The City of Newton, Massachusetts did not qualify as a low-risk auditee.

B. Findings - Financial Statement Audit

Significant Deficiency Considered to be a Material Weakness

09-1 Reconciliation of Primary Depository Account

Condition: Procedures are not in place to investigate and resolve reconciling items identified on the City's primary depository bank account reconciliation to the Treasurer's cash book 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.

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: The City will undertake a complete review of current procedures for the reconciliation of bank statements to the Treasurer's cash book, with the objective of making maximum use of Quickbooks software and regularly reporting unidentified variances to the Comptroller for investigation.

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

08-1 Cash Disbursements

Conditions: 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 was a disbursement warrant that was prepared by the Comptroller's Office. Certain time sensitive disbursements such as state and federal payroll tax withholdings and debt service payments were, however, routinely wired by the Treasurer and subsequently reported to the Comptroller for placement on a "checkless" warrant. Procedures were not in place to consistently report "checkless" disbursements to the Comptroller's Office.

Current Status: During fiscal year 2009, procedures were implemented to resolve this finding.

08-2 Reconciliation of Bank Accounts

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

Current Status: The status of this finding remains unresolved. See current year finding 09-1.