

CITY OF NEWTON, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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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, 2010 (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, 2009), which collectively comprise the City of Newton, Massachusetts' basic financial statements and have issued our report thereon dated November 23, 2010. 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 23, 2010.

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 23, 2010



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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 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, 2010. 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.

As described in items 10-2 and 10-3 in the accompanying schedule of findings and questioned costs, the City of Newton, Massachusetts did not comply with the requirements regarding eligibility and program income that are applicable to its HOME Investment Partnerships Program. Compliance with such requirements is necessary, in our opinion, for the City of Newton, Massachusetts to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Newton, Massachusetts complied, in all material respects, with the 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, 2010. The results of our auditing procedures also disclosed other 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 10-4, 10-5, 10-6, and 10-8.

Internal Control Over Compliance

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Newton, Massachusetts' internal control over compliance.

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 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 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 10-1 and 10-7 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, 2010 (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, 2009), and have issued our report thereon dated November 23, 2010. 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.

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, 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.

Sullivan, King & Company, LLC

November 23, 2010

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<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	\$ 86,058
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	09-207	65,629
National School Lunch Program	10.555	09-207	<u>505,627</u>
Total U.S. Department of Agriculture			<u>657,314</u>
U.S. Department of Housing and Urban Development			
<u>Direct Programs:</u>			
<i>CDBG - Entitlement Grants Cluster:</i>			
Community Development Block Grant	14.218	Not Applicable	1,874,176
Community Development Block Grant Recovery (CDBG-R)	14.253	Not Applicable	3,984
Emergency Shelter Grants Program	14.231	Not Applicable	99,146
HOME Investment Partnerships Program	14.239	Not Applicable	1,933,455
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	Not Applicable	<u>436,376</u>
Total U.S. Department of Housing and Urban Development			<u>4,347,137</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	104
DEA Asset Forfeitures	16.unk	Not available	<u>5,091</u>
Total U.S. Department of Justice			<u>5,195</u>
Institute of Museum and Library Services			
<u>Direct Program:</u>			
Museum for America Grant	45.301	Not Applicable	<u>10,962</u>
U.S. Department of Energy			
<u>Direct Program:</u>			
Energy Conservation Grant (ARRA)	81.128	Not Applicable	<u>57,185</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<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>			
Safe Schools/Healthy Students Grant	84.184L	Not Applicable	1,616,805
School Counseling Demonstration Grant	84.215E	Not Applicable	375,692
Physical Education Grant	84.215F	Not Applicable	133,617
Teaching American History Grant	84.215X	Not Applicable	319,982
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Title I Carryover Grant (fiscal year 2008)	84.010	305-434-9-0207-J	9,355
Title I Distribution (fiscal year 2009)	84.010	305-111-9-0207-J	174,837
Title I Carryover Grant (fiscal year 2009)	84.010	305-379-0-0207-K	25,654
Title I Distribution (fiscal year 2010)	84.010	305-108-0-0207-K	371,906
Title I School Support (fiscal year 2010)	84.010	323-030-0-0207-K	3,623
<u>Special Education Cluster:</u>			
SPED 94-142 Allocation (fiscal year 2009)	84.027	240-142-9-0207-J	15,342
SPED 94-142 Allocation (fiscal year 2010)	84.027	240-081-0-0207-K	2,919,620
SPED Program Improvement (fiscal year 2009)	84.027	274-255-9-0207-J	25,349
American Recovery and Reinvestment Act - IDEA	84.391	760-066-0-0207-K	1,669,256
<u>Passed through the State Department of Early Education and Care:</u>			
SPED Early Childhood Training (fiscal year 2009)	84.173	26209 NEWTONPUBLICSCH	7,184
SPED Early Childhood Training (fiscal year 2010)	84.173	26210 NEWTONPUBLICSCH	70,803
American Recovery and Reinvestment Act - Early Childhood	84.392	76210 NEWTONPUBLICSCH	67,745
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Carl Perkins Occupational Education (fiscal year 2009)	84.048	400-037-9-0207-J	18,129
Carl Perkins Occupational Education (fiscal year 2010)	84.048	400-022-0-0207-K	68,450
Safe and Drug-Free Schools (fiscal year 2009)	84.186	331-159-9-0207-J	8,316
Safe and Drug-Free Schools (fiscal year 2010)	84.186	331-108-0-0207-K	30,799
Technical Literacy Grant (fiscal year 2009)	84.318	160-129-9-0207-J	6,748
Technical Literacy Grant (fiscal year 2010)	84.318	160-023-0-0207-K	1,518
Title III - English Language Acquisition (fiscal year 2009)	84.365	180-028-9-0207-J	29,344
Title III - English Language Acquisition (fiscal year 2010)	84.365	180-042-0-0207-K	123,345
Title IIA - Improving Teacher Quality (fiscal year 2009)	84.367	140-086-9-0207-J	95,037
Title IIA - Improving Teacher Quality (fiscal year 2010)	84.367	140-070-0-0207-K	211,913
 Total U.S. Department of Education			 <u>8,400,369</u>
U.S. Department of Health and Human Services			
<u>Passed through the State Executive Office of Health and Human Services Department of Public Health:</u>			
Public Health Emergency Response (PHER) Grants	93.069	INTF3202P01900419059	72,017
School-Based Medicaid Reimbursement Program	93.778	1951726	272,063
<u>Passed through the State Department Office of Elderly Affairs:</u>			
Title IIIB - Grants for Supportive Services and Senior Centers	93.044	Not available	3,334
 Total U.S. Department of Health and Human Services			 <u>347,414</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<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>22,439</u>
Corporation for National and Community Service			
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Learn and Serve Grant (fiscal year 2009)	94.004	354-027-9-0207-J	94
Learn and Serve Grant (fiscal year 2010)	94.004	354-023-0-0207-K	<u>2,800</u>
Total Corporation for National and Community Service			<u>2,894</u>
U.S. Department of Homeland Security			
<u>Direct Program:</u>			
Assistance to Firefighters Grant	97.044	Not Applicable	86,827
<u>Passed through the City of Beverly:</u>			
State Homeland Security Training Grant	97.073	Not available	<u>4,387</u>
Total U.S. Department of Homeland Security			<u>91,214</u>
Total			\$ <u>13,942,123</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 - Sub-recipients

The City of Newton, Massachusetts provided the following awards to sub-recipients for the fiscal year ended June 30, 2010:

<u>Program Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 369,760
Emergency Shelter Grants Program	14.231	99,146
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	436,376
Safe Schools - Healthy Students Grant	84.184L	<u>457,282</u>
Total		<u>\$ 1,362,564</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. 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. Two 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. These items are described in the schedule of findings and questioned costs as items 10-1 and 10-7.
5. The auditors' report on compliance for the major federal award programs for the City of Newton, Massachusetts expresses a qualified opinion on the HOME Investment Partnerships Program and an unqualified opinion on all other 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 12-17.

7. The programs tested as major programs were:

<u>Program Description</u>	<u>CFDA Number</u>
<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
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257
<i>Special Education Cluster</i>	
SPED 94-142 Allocation	84.027
SPED Program Improvement	84.027
American Recovery and Reinvestment Act - IDEA	84.391
SPED Early Childhood Training	84.173
American Recovery and Reinvestment Act - Early Childhood	84.392
School Counseling Demonstration Grant	84.215E
Physical Education Grant	84.215F
Teaching American History Grant	84.215X
School-Based Medicaid Reimbursement Program	93.778

8. The threshold used for distinguishing between Type A and B programs was \$418,264.

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 HOUSING AND URBAN DEVELOPMENT***Material Weakness in the Internal Control over Major Programs*

10-1 HOME Investment Partnerships Program – CFDA No. 14.239; Fiscal year ended June 30, 2010

Condition and Criteria: The City did not comply with the eligibility and program income compliance requirements related to the program. Internal controls should be designed and implemented to ensure that the City adheres to the compliance requirements of federal award programs as outlined in OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133), and OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87).

Cause: Procedures are not in place to adhere to all of the federal eligibility and program income compliance requirements related to the program.

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

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to adhere to all federal eligibility and program income compliance requirements as prescribed in OMB Circulars A-87 and A-133.

Grantee Response: The City of Newton, as the Representative Member for the WestMetro HOME Consortium, has established internal controls to ensure compliance with the eligibility and program income compliance requirements of the HOME Investment Partnerships Program as outlined in OMB Circular A-133.

Concerning eligibility, the two tested participants with income determinations in question were from two of the twelve member communities, not the City of Newton. The City of Newton, as the Representative Member for the Consortium (as defined in the Mutual Cooperation Agreement for the WestMetro HOME Consortium), is responsible for overall compliance with HOME Program requirements and each member community is responsible for all federal requirements for its projects, including documentation of project eligibility. To ensure that member communities' eligibility determinations for program participants are accurate, member communities must now submit to the City of Newton verification of the source documentation used to determine income eligibility and a record of their calculations on a standard form. This form must be submitted for approval prior to the project being set-up in the U.S. Department of Housing and Urban Development's (HUD) Integrated Disbursement and Information System (IDIS). The City will also work with HUD to conduct eligibility determination training for staff of the member communities early in calendar year 2011, and will continue to conduct annual monitoring of member communities. It is anticipated that after the training, the Consortium will adopt the "Part 5" method of income determination for all HOME-funded programs and activities.

As the Representative Member for the Consortium, the City of Newton must establish, account for, and maintain a local HOME Investment Trust Fund account (including federal draw downs and program income, contributions, etc.). With regard to program income, the past practice of the City has been to use program income on-hand from member communities before any additional HOME funds were drawn down for other HOME activities within that member community. As this is not specifically stated in the Consortium's Mutual Cooperation Agreement, it is not allowed and that practice has changed. At the start of FY11, the City of Newton began using any program income on hand in the City's HOME

Investment Trust Fund account prior to initiating a drawdown request for additional HOME funds, Program income is used to pay the next eligible program cost (or portion thereof).

Material Noncompliance Related to Major Programs

10-2 HOME Investment Partnerships Program – CFDA No. 14.239; Fiscal year ended June 30, 2010

Condition and Criteria: Two of the 19 participants tested who received HOME grant subsidies during the fiscal year were not income eligible to receive HOME grant funding based on the income documentation provided.

Cause: Procedures are not in place to ensure that the eligibility statuses determined by the HOME Consortium members are accurate and appropriate.

Effect: HOME grant subsidies were provided to participants who were not income eligible and are subject to disallowance and considered questioned costs.

Questioned Costs: Questioned costs related to this finding total \$73,475. This is considered material to the program.

Auditors' Recommendation: Procedures must be implemented to ensure that the eligibility statuses determined for all participants are accurate, including the ones determined by the HOME Consortium members, and that only income eligible individuals receive HOME grant subsidies.

Grantee Response: Subsequent to this draft report being issued, the two municipalities with questioned eligibility determinations submitted additional documentation to the City of Newton to show that the homebuyers in question were income eligible under HOME Program regulations. The City of Waltham uses the Adjusted Gross Income method of determining income and based on the household's 2008 tax return, the household was income eligible at the time of assistance. The assistance was provided in October 2009, so this was their most recent tax return prior to receiving assistance.

Because Waltham did not have this tax return when they originally determined the household to be income eligible, they looked at their 2007 return and their pay stubs to try to project the household's income for the next year. When completing their analysis, they inadvertently did not include a shift differential being paid to one of the household members and this put them over income by approximately \$600. However, their income as listed on their tax return showed them to be under the income limit. City of Newton staff ran the numbers based on the 2008 tax return and verified that they were eligible for HOME assistance using the Adjusted Gross Income method of income determination.

The Town of Natick uses the "Part 5" method of determining income. At the time of the audit, the file for the household in question did not have copies of documentation of the third-party verification from employers that led them to determine that the household was income-eligible. Without this documentation, the household appeared to be over the income limit based on the pay stubs submitted because of one exceptionally high pay stub in January in which the employee received a sales bonus. The Town contacted the employers again and documented their income at the time prior to receiving the HOME assistance and provided the City of Newton with copies of the documentation. HUD's Technical Guide for Determining Income and Allowances for the HOME Program, (Third Edition, January 2005), lists third party documentation as the preferred means of obtaining income documentation. As stated in the Guide, "Although easier to obtain than third-party verifications, a review of documents provided by the applicant often does not provide all the necessary information. For instance, an employed applicant's pay stubs may not provide sufficient information about the average number of hours worked, overtime,

tips, and bonuses. In this case, the participating jurisdiction may also need to contact the employer to accurately project annual income". Based on third party verification provided by the employee, the City of Newton has the documentation to show that the household was under the income limit for HOME assistance.

As stated in response to 10-1 above, going forward member communities must submit to the City of Newton on a standard form verification of the source documentation used to determine income eligibility and a record of their calculations. This form must be submitted for approval prior to the project being set-up in the U.S. Department of Housing and Urban Development's (HUD) Integrated Disbursement and Information System (IDIS). The City will also conduct eligibility determination training for staff of the member communities, and will continue to conduct annual monitoring of member communities.

10-3 HOME Investment Partnerships Program – CFDA No. 14.239; Fiscal year ended June 30, 2010

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 several instances where the program income was not applied against the grant expenses prior to drawing down additional Federal funds. Additionally, there were several instances where program income earned by HOME Consortium members was reserved for the applicable member's expenses rather than being used to cover other total program expenses.

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

Effect: Program management 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, rather than being reserved for individual HOME Consortium members' expenses.

Grantee Response: Beginning in FY11 HOME program income is receipted in HUD's IDIS within ten days of receipt and as stated in the response to Finding 10-1 above, it is used before any additional HOME funds are drawdown in IDIS. It is not being reserved for the community that earned the program income.

Other Noncompliance Related to Major Programs

10-4 HOME Investment Partnerships Program – CFDA No. 14.239; Fiscal year ended June 30, 2010

Condition and Criteria: Program management provided Federal funds to a first-time homebuyer for down payment assistance (\$49,470), which was subsequently cancelled (i.e., repaid). Federal guidelines require that repayments be made to whichever HOME account they were drawn from and be used for the next eligible HOME project. Program management held onto the repayments and did not use them to reduce the subsequent eligible drawdowns.

Cause: Procedures are not in place to ensure that repayments are used to reduce eligible grant drawdowns.

Effect: Program management is not in compliance with Federal requirements.

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

Auditors' Recommendation: Procedures must be implemented to ensure that any repayments received are made to the appropriate HOME accounts and are applied against expenses in the next eligible HOME project drawdown.

Grantee Response: The repayment in question was held until that community processed another HOME requisition and the returned funds were used before additional HOME funds were drawdown. Going forward, returned funds will be used to reduce the next eligible grant drawdown(s) regardless of the community origin.

10-5 Community Development Block Grant – Entitlement Grants Cluster – CFDA No.'s 14.218 and 14.253; Fiscal year ended June 30, 2010

Condition and Criteria: Program management did not file the required quarterly "SF-272, Federal Cash Transaction Reports" with the U.S. Department of Housing and Urban Development during the program year for the Community Development Block Grant Recovery (CDBG-R) program.

Cause: Procedures are not in place to submit the required documentation for all programs in the Cluster.

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 "SF-272, Federal Cash Transaction Reports" are filed with the U.S. Department of Housing and Urban Development in a timely manner for all programs in the Cluster.

Grantee Response: The requirement for submittal of the SF272, Federal Cash Transaction Report for the Community Development Block Grant Recovery was not included in the American Recovery and Reinvestment Act of 2009 or subsequent guidance from the U.S. Department of Housing and Urban Development. Program management checked with the local HUD field office at the time of the audit to confirm the requirement. The field office needed to check with HUD Headquarters and subsequently found out that it is required. Program management completed an SF272 for the first quarter of FY11 and will continue to complete the required report until all funds have been expended and reported.

10-6 Homelessness Prevention and Rapid Re-housing Program (HPRP) – CFDA No. 14.257; Fiscal year ended June 30, 2010

Condition and Criteria: Program management did not file the required quarterly "SF-272, Federal Cash Transaction Reports" with the U.S. Department of Housing and Urban Development during the program year.

Cause: Procedures are not in place to submit the required documentation.

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 "SF-272, Federal Cash Transaction Reports" are filed with the U.S. Department of Housing and Urban Development in a timely manner.

Grantee Response: As stated in the response to Finding 10-5 above, the requirement for submittal of the SF272, Federal Cash Transaction Report for the Homelessness Prevention and Rapid Re-Housing Program was not included in the American Recovery and Reinvestment Act of 2009 or subsequent guidance from the U.S. Department of Housing and Urban Development. Program management checked with the local HUD field office at the time of the audit to confirm the requirement. The field office checked with HUD Headquarters and subsequently found out that it is required. Program management completed an SF272 for the first quarter of FY11 and will continue to complete the required report until all funds have been expended and reported.

DEPARTMENT OF EDUCATION

Material Weakness in the Internal Control over Major Programs

10-7 Special Education Cluster – CFDA No.'s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2010

Condition and Criteria: The City did not comply with the Davis-Bacon Act compliance requirements related to the program. Internal controls should be designed and implemented to ensure that the City adheres to the compliance requirements of federal award programs as outlined in OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133), and OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87).

Cause: Procedures are not in place to adhere to the federal Davis-Bacon Act compliance requirements related to the program.

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

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to adhere to the federal Davis-Bacon Act compliance requirements as prescribed in OMB Circulars A-87 and A-133.

Grantee Response: The Newton Public Schools received a federal Special Education American Recovery and Reinvestment Act grant in FY10, with a start date of July 1, 2009. \$75,000 of this \$1.7M grant was reserved to renovate space for a new alternative high school program and an expanded elementary stabilization program for students who would otherwise be placed in out of district settings. In order for students to enter these programs in September, renovations needed to be started and completed within 2 months. For the most part, the district accomplished these renovations using in-house labor. However, some specialty services had to be provided by outside contractors. Pressed by the need to complete renovations in less than two months so that the programs could open by the September 1, the district used contractors who had already been through the city procurement process and therefore had existing city contracts. Using vendors for small jobs who have existing contracts with the city is considered an efficient and cost-effective way of conducting business given the time and effort that is involved in developing RFP's and awarding contracts. Assumptions were made by district personnel that contractors who successfully bid on city issued contracts, therefore were in compliance with all local, state and federal regulations.

In the course of the audit, repeated efforts were made to secure certified payrolls from SRM Plastering, whose labor and material costs equaled \$3,034, and NE School Services, whose costs included materials and labor for window installations, which makes up the balance of the finding. Materials and labor costs were combined on the invoices. When certified payrolls could not be produced, the district offered to remove the costs from the federal grant and pay them with district funds. The city's independent auditors responded that even if we reclassified the installation charges from the grant to district funds, this action would have no impact on the audit finding.

In order to ensure adherence to federal Davis-Bacon Act compliance requirements, the district will confirm in advance that vendors with city contracts who might work on a project funded with federal dollars pay prevailing wages. If the vendor cannot certify that it is in compliance, we will conduct a separate bid process for each service we need. Adherence to Davis Bacon Act prevailing wage requirements will be one of the conditions of the award.

Noncompliance Related to Major Programs

10-8 Special Education Cluster – CFDA No.'s 84.027, 84.173, 84.391, and 84.392; Fiscal year ended June 30, 2010

Condition and Criteria: Program management did not obtain the required certified payrolls from the vendors contracted with for the construction projects funded with the Federal grant funds, and therefore did not verify that the employees were being paid in accordance with the applicable prevailing wage rates.

Cause: Procedures were not in place to accumulate the required certified payrolls for all construction contracts over \$2,000 that were funded with the Federal grant funds.

Effect: As a result, the construction labor expenditures charged to the grant are subject to disallowance and are therefore considered questioned costs.

Questioned Costs: Questioned costs related to this finding total \$7,609.

Auditors' Recommendation: Procedures should be implemented to obtain the weekly certified payrolls from all vendors contracted with to perform construction projects over \$2,000 related to the grant program, and to ensure that the employees' salaries are in accordance with the applicable prevailing wage rates prior to making payments to the vendors.

Grantee Response: The grants and purchasing offices of the Newton Public Schools will ensure that prevailing wage requirements are highlighted in RFPs for projects that will be funded by federal dollars. Adherence to Davis Bacon Act regulations will be included as a condition for contract awards. Contract language will specify that vendors must submit monthly certified payrolls along with invoices as a condition for payment. No invoices will be paid until these documents are produced. The certified payrolls will be maintained in the grants office records along with a copy of the invoice for auditor review.

D. Summary of Prior Audit Findings

FINANCIAL STATEMENT AUDIT

Significant Deficiency Considered to be a Material Weakness

09-1 Reconciliation of Primary Depository Account

Condition: Procedures were 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.

Current Status: This finding has been resolved.