

CITY OF NEWTON, MASSACHUSETTS

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

CITY OF NEWTON, MASSACHUSETTS
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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, 2011 (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, 2010), which collectively comprise the City of Newton, Massachusetts' basic financial statements and have issued our report thereon dated December 20, 2011. 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.

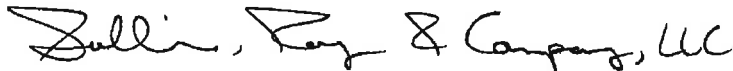
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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 December 20, 2011.

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.



December 20, 2011



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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 (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-3, 11-4, 11-8, 11-9, and 11-10.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be 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 11-1, 11-2, 11-5, 11-6, and 11-7 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, 2011 (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, 2010), and have issued our report thereon dated December 20, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

Zullin, Ray & Company, LLC

December 20, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<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	\$ 78,052
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553	09-207	19,822
National School Lunch Program	10.555	09-207	<u>442,773</u>
Total U.S. Department of Agriculture			<u>540,647</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	1,848,838
Community Development Block Grant Recovery (CDBG-R)	14.253	Not Applicable	554,064
Emergency Shelter Grants Program	14.231	Not Applicable	99,963
HOME Investment Partnerships Program	14.239	Not Applicable	2,301,603
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	Not Applicable	<u>540,263</u>
Total U.S. Department of Housing and Urban Development			<u>5,344,731</u>
U.S. Department of Justice			
<u>Direct Programs:</u>			
Juvenile Mentoring Program	16.726	Not Applicable	45,881
DEA Asset Forfeitures	16.unk	Not Applicable	33,130
DEA Support Overtime Reimbursements	16.unk	Not Applicable	3,796
<u>Passed through the State Executive Office of Public Safety:</u>			
Enforcing Underage Drinking Laws Program	16.727	Not available	<u>3,927</u>
Total U.S. Department of Justice			<u>86,734</u>
Institute of Museum and Library Services			
<u>Passed through the State Library Board of Commissioners:</u>			
Library Services and Technology Grant	45.310	Not available	<u>21,009</u>
U.S. Department of Energy			
<u>Direct Program:</u>			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	Not Applicable	<u>578,571</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/ <u>Pass-Through Grantor/</u> Program	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	1,427,351
School Counseling Demonstration Grant	84.215E	Not Applicable	40,852
Physical Education Grant	84.215F	Not Applicable	240,100
Teaching American History Grant	84.215X	Not Applicable	312,754
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
<i>Title I, Part A Cluster</i>			
Title I Distribution (fiscal year 2010)	84.010	305-108-0-0207-K	38,958
Title I Distribution (fiscal year 2011)	84.010	305-063-1-0207-L	332,123
Title I Carryover Grant (fiscal year 2010)	84.010	305-379-0-0207-K	99,894
Title I Carryover Grant (fiscal year 2011)	84.010	305-441-1-0207-L	502
<i>Special Education Cluster</i>			
SPED 94-142 Allocation (fiscal year 2010)	84.027	240-081-0-0207-K	22,221
SPED 94-142 Allocation (fiscal year 2011)	84.027	240-066-1-0207-L	2,966,860
SPED - Tiered Instruction (fiscal year 2011)	84.027	257-009-1-0207-L	25,000
ARRA - SPED IDEA (fiscal year 2010)	84.391	760-066-0-0207-K	17,908
ARRA - SPED IDEA (fiscal year 2011)	84.391	760-041-1-0207-L	1,817,920
<u>Passed through the State Department of Early Education and Care:</u>			
SPED Early Childhood Training (fiscal year 2010)	84.173	26210 NEWTONPUBLICSCH	1,159
SPED Early Childhood Training (fiscal year 2011)	84.173	26211 NEWTONPUBLICSCH	69,136
ARRA - Early Childhood Allocation (fiscal year 2010)	84.392	76210 NEWTONPUBLICSCH	837
ARRA - Early Childhood Allocation (fiscal year 2011)	84.392	76211 NEWTONPUBLICSCH	66,709
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Carl Perkins Occupational Education (fiscal year 2010)	84.048	400-022-0-0207-K	45,927
Carl Perkins Occupational Education (fiscal year 2011)	84.048	400-012-1-0207-L	78,435
Safe and Drug-Free Schools (fiscal year 2010)	84.186	331-108-0-0207-K	2,162
Safe and Drug-Free Schools - CII (fiscal year 2011)	84.186	332-022-1-0207-L	11,671
Technical Literacy Grant (fiscal year 2010)	84.318	160-023-0-0207-K	7,526
Title III - English Language Acquisition (fiscal year 2010)	84.365	180-042-0-0207-K	17,180
Title III - English Language Acquisition (fiscal year 2011)	84.365	180-001-1-0207-L	125,530
Title IIA - Improving Teacher Quality (fiscal year 2010)	84.367	140-070-0-0207-K	58,372
Title IIA - Improving Teacher Quality (fiscal year 2011)	84.367	140-181-1-0207-L	212,448
ARRA - State Fiscal Stabilization Fund (SFSF)	84.394	780-192-1-0207-L	71,634
ARRA - Education Jobs Grant	84.410	206-056-1-0207-L	189,402
Total U.S. Department of Education			<u>8,300,571</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
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	5,500
School-Based Medicaid Reimbursement Program	93.778	1951726	338,067
<u>Passed through the State Department Office of Elderly Affairs:</u>			
Title IIIB - Grants for Supportive Services and Senior Centers	93.044	Not available	3,333
<u>Passed through the State Department of Fire Services:</u>			
DFS Bioterrorism First Responder Liason Grants	93.283	DFS 2008BHAZMATRESPGRANT	19,364
Total U.S. Department of Health and Human Services			<u>366,264</u>
Corporation for National and Community Service			
<u>Passed through the State Department of Elementary & Secondary Education:</u>			
Learn and Serve Grant (fiscal year 2010)	94.004	354-023-0-0207-K	1,200
U.S. Department of Homeland Security			
<u>Direct Program:</u>			
Assistance to Firefighters Grant	97.044	Not Applicable	30,769
<u>Passed through the State Office of Emergency Management:</u>			
Public Assistance Grants	97.036	CDA CTFEMA1895NEWTON	280,076
Citizen Corps/Community Emergency Grant	97.053	CDA 11CCP07080NEWTONVIPS	6,290
<u>Passed through the State Executive Office of Public Safety:</u>			
Buffer Zone Protection Grant	97.078	Not Available	49,462
Total U.S. Department of Homeland Security			<u>366,597</u>
Total			<u>\$ 15,606,324</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, 2011:

<u>Program Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grant	14.218	\$ 407,952
Emergency Shelter Grants Program	14.231	99,963
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	540,263
Safe Schools - Healthy Students Grant	84.184L	<u>381,223</u>
Total		<u>\$ 1,429,401</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. Material weaknesses in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the City of Newton, Massachusetts expresses an unqualified opinion on all major federal award programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule on pages 12-17.

7. The programs tested as major programs were:

<u>Program Description</u>	<u>CFDA Number</u>
<i>Child Nutrition Cluster</i>	
School Breakfast Program	10.553
National School Lunch Program	10.555
<i>CDBG - Entitlement Grants Cluster</i>	
Community Development Block Grant	14.218
Community Development Block Grant - Recovery (CDBG-R)	14.253
HOME Investment Partnerships Program	14.239
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257
ARRA - Energy Efficiency and Conservation Block Grant	81.128
<i>Title I, Part A Cluster</i>	
Title I Distribution	84.010
Title I Carryover Grant	84.010
<i>Special Education Cluster</i>	
SPED 94-142 Allocation	84.027
SPED - Tiered Instruction	84.027
SPED Early Childhood Training	84.173
ARRA - SPED IDEA	84.391
ARRA - Early Childhood Allocation	84.392
ARRA - Education Jobs Grant	84.410

8. The threshold used for distinguishing between Type A and B programs was \$468,190.

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

B. Findings - Financial Statement Audit

None.

C. Findings and Questioned Costs – Major Federal Award Programs Audit**DEPARTMENT OF AGRICULTURE***Material Weaknesses in the Internal Control over Major Programs*

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

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

Cause: Internal controls are not in place to ensure that all the claims for reimbursement are reviewed for allowability and accuracy.

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

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to ensure that the claims for reimbursement and supporting documentation are reviewed by the Food Services Director, or other supervisory official, prior to submission to the DESE. Controls should also be implemented to document the review procedures and authorization of the claims.

Grantee Response: The Chief of Operations for the Newton Public Schools reviews and approves claims for reimbursement as well as supporting documentation, including FP-9 forms and daily lunch records. Upon completion of the review, the Chief of Operations submits these records to the Massachusetts Department of Elementary and Secondary Education for monthly reimbursement. A formal record of the Chief of Operation's approval will be retained for future reference.

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

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

Cause: Internal controls are not in place to include only credible lunches in the claims for reimbursement submitted to the DESE.

Effect: Noncompliance with the federal award program's reporting and allowable costs/cost principles compliance requirements could occur and not be detected and corrected timely.

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to ensure that the meal counts reported in the claims for reimbursement are only for allowable lunches.

Grantee Response: As of July 1, 2011, Whitsons New England, Inc., the City's food services management company, has installed a point-of-sale system which captures the data on every meal to determine eligibility for reimbursement.

Noncompliance Related to Major Programs

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

Condition and Criteria: Program management reports all lunches served in the claims for reimbursement submitted to the DESE, even if they do not contain the required nutrient levels and components. As stated in 7 CFR 210.10, all lunches served must (1) contain a variety of foods, (2) limit fat to 30% of total calories, (3) limit saturated fat to less than 10% of total calories, (4) be low in cholesterol (5) be low in salt and sodium, and (6) contain grain products, vegetables and fruits. We observed approximately ten instances whereby the lunches served to students and included in the daily meal counts for reimbursement did not conform to these required nutrient standards.

Cause: Procedures are not in place to remove the lunches missing required components from the meal counts reported in the claims for reimbursement.

Effect: The lunches served without all the required components are not reimbursable.

Questioned Costs: We were unable to quantify the questioned costs related to this finding.

Auditors' Recommendation: Procedures must be implemented to ensure that only allowable lunches with all the required components and nutrients are included in the meal counts reported in the claims for reimbursement submitted to the DESE.

Grantee Response: As of July 1, 2011, Whitsons New England, Inc., the City’s food services management company, has installed a point-of-sale system which captures the data on every meal to determine eligibility for reimbursement.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT***Noncompliance Related to Major Programs***

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

Condition and Criteria: One of the members of the West Metro HOME Consortium, the City of Waltham, did not comply with MGL Chapter 30, Section B (Uniform Procurement Act) when procuring construction services from one of the grant program’s vendors. 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, grantees are required to follow state procurement policies when procuring goods and services related to federal grants. As the lead member community of the West Metro HOME Consortium, the City of Newton is required to monitor the activities of the Consortium members and verify the members’ compliance with the grant requirements.

Cause: Procedures were not in place to effectively monitor the City of Waltham and to verify the City’s adherence to the MGL Chapter 30, Section B (Uniform Procurement Act) requirements when procuring all services related to the federal grant program.

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

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

Auditors' Recommendation: Procedures must be implemented to effectively monitor the activities performed by all Consortium members and ensure that they are in compliance with the grant requirements, including the MGL Chapter 30, Section B (Uniform Procurement Act) procurement requirements.

Grantee Response: The City of Waltham has been notified of this finding and the City's Director of Planning and Development has developed a remediation plan, including the following elements:

- CH 30B procurement obligations will be highlighted in the City of Waltham's HOME program regulation manuals.
- A mandatory review of CH 30B procurement procedures will be held for all Housing staff and copies of CH 30B will be provided to each staff member.
- Program applicants and contractor applications will include the requirement to use CH 30B procedures.
- Recordkeeping, consistent with CH 30B, will be retained on file and be accessible in the Planning Department, Housing Division Office.

DEPARTMENT OF ENERGY

Material Weaknesses in the Internal Control over Major Programs

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

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

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

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

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

Grantee Response: The Public Buildings Department will obtain duplicate copies of all payment requests and supporting materials from the U.S Department of Energy.

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

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

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

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

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

Grantee Response: All future reporting to the US Department of Energy will be submitted to the Comptroller's Office for reconciliation to the City's general ledger prior to submission to the federal agency. Both the Public Building Department and Comptroller's Office will retain copies of the reports filed with the U.S Department of Energy.

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

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

Cause: Internal controls are not in place to segregate the equipment in the City's inventory records and to identify it as being funded from ARRA funds.

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

Auditors' Recommendation: Internal controls surrounding the federal award program must be implemented to ensure that the equipment purchased with the grant funds is properly identified as being funded from the ARRA Grant funds in the City's inventory records.

Grantee Response: The City viewed the public building energy conservation activities funded by this grant as building improvements, instead of equipment purchases. All energy conservation equipment (i.e., boilers and burners) will be reclassified as equipment in the City's capital asset records and will be labeled as required by federal requirements. Additionally, the Comptroller's Office will begin maintaining a record of all equipment (movable and non-movable) with a value of \$5,000 that has been acquired with federal funds. A separate accounting is necessary because the City's equipment capitalization policy is limited to movable capital equipment with a value of \$15,000 or more.

Noncompliance Related to Major Programs

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

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

Cause: Procedures are not in place to maintain the required reports and supporting documentation.

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

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

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

Grantee Response: The Public Buildings Department will obtain duplicate copies of all payment requests and supporting materials from the U.S Department of Energy.

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

Condition and Criteria: The financial reports submitted to the DOE were not completed based upon expenditures processed and recorded in the City's general ledger and, therefore, did not represent an accurate, current and complete disclosure of financial results.

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

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

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

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

Grantee Response: All future reporting to the US Department of Energy will be submitted to the Comptroller's Office for reconciliation to the City's general ledger prior to submission to the federal agency. Both the Public Building Department and Comptroller's Office will retain copies of the reports filed with the U.S Department of Energy.

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

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

Cause: Procedures are not in place to properly account for the equipment purchased with the ARRA Grant funds in the City's inventory records.

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

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

Auditors' Recommendation: Procedures must be implemented to ensure that the equipment with a per-unit cost of \$5,000 or more purchased with federal ARRA grant funds are segregated in the City's inventory listing and identified as ARRA funded equipment.

Grantee Response: The City viewed the public building energy conservation activities funded by this grant as building improvements, instead of equipment purchases. All energy conservation equipment (i.e., boilers and burners) will be reclassified as equipment in the City's capital asset records and will be

labeled as required by federal requirements. Additionally, the Comptroller's Office will begin maintaining a record of all equipment (movable and non-movable) with a value of \$5,000 that has been acquired with federal funds. A separate accounting is necessary because the City's equipment capitalization policy is limited to movable capital equipment with a value of \$15,000 or more.

D. Summary of Prior Audit Findings

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: The City did not comply with the eligibility and program income compliance requirements related to the program.

Current Status: This finding has been resolved.

Material Noncompliance Related to Major Programs

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

Condition: 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.

Current Status: This finding has been resolved.

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

Condition: 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.

Current Status: This finding has been resolved.

Other Noncompliance Related to Major Programs

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

Condition: 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.

Current Status: This finding has been resolved.

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

Condition: 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.

Current Status: This finding has been resolved.

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

Condition: 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.

Current Status: This finding has been resolved.

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: The City did not comply with the Davis-Bacon Act compliance requirements related to the program.

Current Status: This finding has been resolved.

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: 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.

Current Status: This finding has been resolved.