

**CITY OF NEWTON, MASSACHUSETTS**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



CITY OF NEWTON, MASSACHUSETTS

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TABLE OF CONTENTS

	Page
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1
Independent Auditors' Report on Compliance with Requirements 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	3
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs	10



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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, 2012 (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, 2011), which collectively comprise the City of Newton, Massachusetts' basic financial statements and have issued our report thereon dated November 26, 2012. 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.

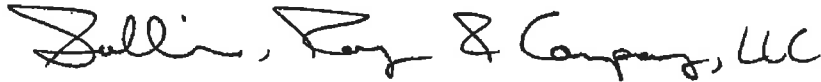
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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 26, 2012.

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.

A handwritten signature in black ink that reads "Sullivan, King & Company, LLC". The signature is written in a cursive, flowing style.

November 26, 2012



Certified Public Accountants

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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, 2012. 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, 2012. 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 12-2, 12-3, 12-4, 12-6, 12-12, 12-13 and 12-14.

## 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 12-1, 12-5, 12-7, 12-8, 12-9, 12-10, and 12-11 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, 2012 (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, 2011), and have issued our report thereon dated November 26, 2012, 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.

*Sullivan, King & Company, LLC*

November 26, 2012



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture</b>			
<u>Passed through the State Department of Education:</u>			
Food Distribution Program	10.550	09-207	\$ 120,359
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553	09-207	41,858
National School Lunch Program	10.555	09-207	511,915
Total U.S. Department of Agriculture			<u>674,132</u>
<b>U.S. Department of Housing and Urban Development</b>			
<u>Direct Programs:</u>			
<i>CDBG - Entitlement Grants Cluster</i>			
Community Development Block Grant	14.218	Not Applicable	1,627,789
Community Development Block Grant Recovery (CDBG-R)	14.253	Not Applicable	43,438
Emergency Shelter Grants Program	14.231	Not Applicable	99,437
HOME Investment Partnerships Program	14.239	Not Applicable	1,601,545
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	Not Applicable	21,553
Total U.S. Department of Housing and Urban Development			<u>3,393,762</u>
<b>U.S. Department of Justice</b>			
<u>Direct Programs:</u>			
Juvenile Mentoring Program	16.726	Not Applicable	80,258
DEA Asset Forfeitures	16.922	Not Applicable	250
DEA Support Overtime Reimbursements	16.unk	Not Applicable	47,982
<u>Passed through the State Executive Office of Public Safety:</u>			
Public Safety Partnership and Community Policing Grants	16.710	Not Available	251,500
Enforcing Underage Drinking Laws Program	16.727	Not Available	4,082
Total U.S. Department of Justice			<u>384,072</u>
<b>U.S. Department of Transportation</b>			
<u>Direct Program:</u>			
ARRA - Highway Planning and Construction	20.205	Not Applicable	<u>148,200</u>
<b>Institute of Museum and Library Services</b>			
<u>Passed through the State Library Board of Commissioners:</u>			
Library Services and Technology Grant	45.310	Not Available	<u>2,500</u>
<b>U.S. Department of Energy</b>			
<u>Direct Program:</u>			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	Not Applicable	<u>163,843</u>

(continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Education</b>			
<u>Direct Programs:</u>			
Safe Schools/Healthy Students Grant	84.184L	Not Applicable	1,106,785
Physical Education Grant	84.215F	Not Applicable	158,516
Teaching American History Grant	84.215X	Not Applicable	347,507
<u>Passed through the State Department of Elementary &amp; Secondary Education:</u>			
<i>Title I, Part A Cluster</i>			
Title I Distribution (fiscal year 2011)	84.010	305-063-1-0207-L	54,550
Title I Distribution (fiscal year 2012)	84.010	305-124-0207-M	271,356
Title I Carryover Grant (fiscal year 2011)	84.010	305-441-1-0207-L	70,182
Title I Carryover Grant (fiscal year 2012)	84.010	305-458-2-0207-M	50,426
<i>Special Education Cluster</i>			
SPED 94-142 Allocation (fiscal year 2011)	84.027	240-066-1-0207-L	9,520
SPED 94-142 Allocation (fiscal year 2012)	84.027	240-162-2-0207-M	2,733,480
SPED - Tiered Instruction (fiscal year 2011)	84.027	257-009-1-0207-L	10,000
SPED - Tiered Instruction (fiscal year 2012)	84.027	257-026-2-0207-M	2,102
SPED Program Improvement (fiscal year 2012)	84.027	274-132-2-0207-M	121,136
ARRA - SPED IDEA (fiscal year 2011)	84.391	760-041-1-0207-L	16,999
<u>Passed through the State Department of Early Education and Care:</u>			
SPED Early Childhood Allocation (fiscal year 2011)	84.173	26211 NEWTONPUBLICSCH	2,894
SPED Early Childhood Allocation (fiscal year 2012)	84.173	26212 NEWTONPUBLICSCH	67,863
ARRA - Early Childhood Allocation (fiscal year 2011)	84.392	76211 NEWTONPUBLICSCH	1,119
<u>Passed through the State Department of Elementary &amp; Secondary Education:</u>			
Carl Perkins Occupational Education (fiscal year 2011)	84.048	400-012-1-0207-L	3,007
Carl Perkins Occupational Education (fiscal year 2012)	84.048	400-031-2-0207-M	66,463
Safe and Drug-Free Schools (fiscal year 2012)	84.186	331-012-2-0207-M	743
Technical Literacy Grant (fiscal year 2010)	84.318	160-023-0-0207-K	2,000
Title III - English Language Acquisition (fiscal year 2011)	84.365	180-001-1-0207-L	18,596
Title III - English Language Acquisition (fiscal year 2012)	84.365	180-012-2-0207-M	63,920
Title IIA - Improving Teacher Quality (fiscal year 2011)	84.367	140-181-1-0207-L	53,712
Title IIA - Improving Teacher Quality (fiscal year 2012)	84.367	140-154-2-0207-M	182,873
ARRA - Race to the Top	84.395	201-135-2-0207-M	29,264
ARRA - Education Jobs Grant	84.410	206-029-2-0207-M	877,474
 Total U.S. Department of Education			 <u>6,322,487</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/ Pass-Through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services</b>			
<u>Passed through the State Executive Office of Health and Human Services:</u>			
Medical Reserve Corps Grant Program	93.008	Not Available	3,000
School-Based Medicaid Reimbursement Program	93.778	1951726	275,564
<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	18,094
Total U.S. Department of Health and Human Services			<u>299,991</u>
<b>U.S. Department of Homeland Security</b>			
<u>Direct Program:</u>			
Assistance to Firefighters Grant	97.044	Not Applicable	18,048
<u>Passed through the State Emergency Management Agency:</u>			
Public Assistance Grants	97.036	CDA CTFEMA1895NEWTON01272	78,554
Public Assistance Grants	97.036	CDA CTFEMA1959NEWTON00424	34,127
Public Assistance Grants	97.036	CDA CTFEMA1959NEWTON00397	414,367
Total U.S. Department of Homeland Security			<u>545,096</u>
Total			<u>\$ 11,934,083</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 - U.S. Department of Homeland Security**

The amounts reported for the Public Assistance Grants represent federal reimbursements.

**Note 5 - Sub-recipients**

The City of Newton, Massachusetts provided the following awards to sub-recipients for the fiscal year ended June 30, 2012:

Program Description	CFDA Number	Amount
Community Development Block Grant	14.218	\$ 306,321
Emergency Shelter Grants Program	14.231	99,437
Homelessness Prevention and Rapid Re-housing Program (HPRP)	14.257	16,953
Safe Schools - Healthy Students Grant	84.184L	187,484
Total		\$ 610,195

**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 12-19.

## 7. The programs tested as major programs were:

Program Description	CFDA Number
<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
Public Safety Partnership and Community Policing Grants	16.710
ARRA - Energy Efficiency and Conservation Block Grant	81.128
<i>Special Education Cluster</i>	
SPED 94-142 Allocation	84.027
SPED - Tiered Instruction	84.027
SPED Program Improvement	84.027
SPED Early Childhood Allocation	84.173
ARRA - SPED IDEA	84.391
ARRA - Early Childhood Allocation	84.392
Safe Schools - Healthy Students Grant	84.184L
ARRA - Education Jobs Grant	84.410
Public Assistance Grants	97.036

8. The threshold used for distinguishing between Type A and B programs was \$358,022.

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 Weakness in the Internal Control over Major Programs*

## 12-1 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2012

*Condition and Criteria:* The City did not comply with the eligibility and special tests and provisions compliance requirements.

*Cause:* Internal controls are not in place to ensure that the required lunch applications and income documentation obtained through the verification summary process are maintained for all students.

*Effect:* Noncompliance with the federal award program's eligibility and special tests and provisions requirements occurred and was not detected and corrected timely.

*Auditors' Recommendation:* Internal controls surrounding the federal award program must be implemented to ensure that lunch applications are maintained in the student files for all students receiving free and reduced lunches. Controls must also be implemented to maintain the income documentation obtained as part of the verification process in the students' files.

*Grantee Response:* The City of Newton has purchased a new fully integrated Free & Reduced Software program called Lunchbox. All meal applications are now being approved electronically and applications are now on file according to eligibly electronically. The income verification process for meal applications is now an automated process via the new software. As of July 1, 2012, the Newton Operations Department has a position with dedicated responsibility for meal and claim applications, including verifications and approvals as well as utilizing the new software system.

*Noncompliance Related to Major Programs*

## 12-2 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2012

*Condition and Criteria:* One of the claim for reimbursement forms submitted to the DESE included inaccurate information. For the month of October 2011, the number of meals served, as reported to the DESE, did not agree to the detailed breakdown of school nutrition activity.

*Cause:* Procedures were not in place to reconcile the claims for reimbursement to the supporting detailed records of meals served prior to submission to the DESE for that month.

*Effect:* The claim for reimbursement forms submitted to the DESE for the October 2011 claim month did not represent accurate meal counts, which were the basis for the City's reimbursements.

*Questioned Costs:* Questioned costs related to this finding total \$21.

*Auditors' Recommendation:* Procedures must be implemented to ensure that all claims for reimbursement are reconciled to the supporting detailed records of meals served, with all exceptions clearly noted, detailed and resolved.

*Grantee Response:* The October claim from 2011 has been corrected. The process for claim entry is being handled monthly by the position noted in the response to 12-1. All meal count information is collected by the automated point of service system. Meal counts for each school for the entire month are reconciled by the FSM company's revenue and meal count program. All school reports are run by the FSMC and submitted to the City of Newton for reconciliation. The city then enters all claim information into the DESE Portal. The meal counts are then reviewed by the Operations Department and submitted for claim reimbursement. All claim back up documentation is housed at the Food Service Office at the Education Center.

12-3 Child Nutrition Cluster – CFDA No.'s 10.553 and 10.555; Fiscal year ended June 30, 2012

*Condition and Criteria:* Four of the 60 student files tested were either missing the original applications filed or did not contain sufficient income documentation to support the eligibility statuses determined through the eligibility and verification summary processes.

*Cause:* Procedures are not in place to maintain the required lunch applications and income documentation obtained as part of the verification summary process for all students.

*Effect:* The City is not in compliance with federal grant eligibility and special tests and provisions requirements.

*Questioned Costs:* Questioned costs related to this finding total \$2,658.

*Auditors' Recommendation:* Procedures must be implemented to ensure that all student files include the lunch applications, as well as any income documentation obtained, to support the eligibility statuses determined for the students each school year.

*Grantee Response:* Please reference response to finding 12-1. All meal applications are now being handled via an automated system for federal grant program compliance.

## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

### *Noncompliance Related to Major Programs*

12-4 HOME Investment Partnerships Program – CFDA No. 14.239; Fiscal year ended June 30, 2012

*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 instances where the program income was not applied against the grant expenses prior to drawing down additional Federal funds.

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

*Effect:* The City 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 prior to drawing down additional federal funds.

*Grantee Response:* The City has adopted procedures to ensure the prompt receipt of program income receipts into the U.S. Department of Housing and Urban Development's Integrated Disbursement and Information System (IDIS). Upon the City's receipt of funds, funds are delivered to the Treasurer for deposit, and a tracking memorandum is used to ensure prompt deposit, receipt into IDIS, and credit to the proper community project. All subsequent invoice cover memos cite whether program income is available to pay the invoice. An additional internal control is in place whereby staff responsible for processing invoices maintains a file to ensure that whenever an eligible invoice is paid, a second determination is made as to whether program income is available to pay the invoice. The error cited inadvertently occurred during staff transition. The problem has been corrected, and receipts are recorded and expended timely.

## DEPARTMENT OF JUSTICE

### *Material Weakness in the Internal Control over Major Programs*

12-5 Public Safety Partnership and Community Policing Grants – CFDA No. 16.710;  
Fiscal year ended June 30, 2012

*Condition and Criteria:* The City does not have internal controls in place to comply with the procurement, suspension and debarment compliance requirements related to the program.

*Cause:* Internal controls are not in place to verify that the vendors contracted with in excess of \$25,000 related to the grant program are not suspended, debarred or otherwise excluded from doing business.

*Effect:* Noncompliance with the federal award program's procurement, suspension and debarment compliance requirements could occur and not be detected and corrected timely.

*Auditors' Recommendation:* Internal controls must be implemented to ensure that all vendors contracted with have not been suspended or debarred or otherwise excluded from doing business, prior to procuring their services. In order to verify this, program management should either obtain debarment certifications from the vendors or check the *Excluded Parties List System* website. Internal controls must also be implemented to maintain documentation supporting the debarment checks performed.

*Grantee Response:* The City's Purchasing Department has agreed to add a federal debarment check to the current state debarment check for all pending contracts, regardless of funding source. A print screen copy of the resulting query will be retained in the contract file for each such contract.

### *Noncompliance Related to Major Programs*

12-6 Public Safety Partnership and Community Policing Grants – CFDA No. 16.710;  
Fiscal year ended June 30, 2012

*Condition and Criteria:* Salaries charged to the grant for several employees working on grant related projects were not supported by timesheets.

*Cause:* Procedures are not in place to maintain timesheets for all City employees who worked on the grant projects.

*Effect:* The salaries charged to the grant for the employees who were missing timesheets are subject to disallowance and are considered questioned costs.

*Questioned Costs:* Questioned costs related to this finding total \$1,920.

*Auditors' Recommendation:* Procedures must be implemented to ensure that timesheets are prepared and maintained for all employees working on the grant projects and that only allowable costs are charged to the grant program.

*Grantee Response:* Timesheets were maintained, however, in this instance there was a clerical error that duplicated labor charges incurred in connection with the installation of emergency exit signs at Oak Hill Middle School and resulted in an overcharge of \$1,920 to the grant. The Public Building Department has provided the Comptroller with the journal entry information to correct this error and the charges have been removed from the grant effective November 28, 2012.

## DEPARTMENT OF HOMELAND SECURITY

### *Material Weakness in the Internal Control over Major Programs*

12-7 Public Assistance Grants – CFDA No. 97.036; Fiscal year ended June 30, 2012

*Condition and Criteria:* The City does not have internal controls in place to comply with the procurement, suspension and debarment compliance requirements related to the program.

*Cause:* Internal controls are not in place to verify that the vendors contracted with in excess of \$25,000 related to the grant program are not suspended, debarred or otherwise excluded from doing business.

*Effect:* Noncompliance with the federal award program's procurement, suspension and debarment compliance requirements could occur and not be detected and corrected timely.

*Auditors' Recommendation:* Internal controls must be implemented to ensure that all vendors contracted with have not been suspended or debarred or otherwise excluded from doing business, prior to procuring their services. In order to verify this, program management should either obtain debarment certifications from the vendors or check the *Excluded Parties List System* website. Internal controls must also be implemented to maintain documentation supporting the debarment checks performed.

*Grantee Response:* The City's Purchasing Department has agreed to add a federal debarment check to the current state debarment check for all pending contracts, regardless of funding source. A print screen copy of the resulting query will be retained in the contract file for each such contract.

## DEPARTMENT OF ENERGY

*Material Weaknesses in the Internal Control over Major Programs*

- 12-8 ARRA - Energy Efficiency and Conservation Block Grant Program - CFDA No. 81.128;  
Fiscal year ended June 30, 2012

*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 payment requests and the 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 keeps electronic records for Federal Grants on the department's server. As requested, supporting documentation for payment requests for this project were sent to Sullivan, Rogers & Company LLC via email on November 8<sup>th</sup> and 9<sup>th</sup> of 2012. Despite best efforts, we were unable print out a copy of the payment request form from the Federal Department of Treasury Automated Standard Application for Payment (ASAP) system. Copies of the ASAP Payment Transaction Confirmation and Account Settlement Report that document when payment requests were submitted have been offered as an alternative.

- 12-9 ARRA - Energy Efficiency and Conservation Block Grant Program - CFDA No. 81.128;  
Fiscal year ended June 30, 2012

*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:* As a result of a misunderstanding on the part of the Public Building Department the reports were not submitted to the Comptroller for reconciliation to the City's general ledger prior to submission.

- 12-10 ARRA – Energy Efficiency and Conservation Block Grant Program – CFDA No. 81.128;  
Fiscal year ended June 30, 2012

*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 label the equipment as being funded from federal grant funds and to perform the required physical inventory each year.

*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 federal grant funds and that the City performs a physical inventory each year, which is reconciled with the inventory records.

*Grantee Response:* The 29 pieces of equipment listed have been tagged and labeled as federally funded equipment as noted and were inventoried on November 15, 2012.

- 12-11 ARRA – Energy Efficiency and Conservation Block Grant Program – CFDA No. 81.128;  
Fiscal year ended June 30, 2012

*Condition and Criteria:* The City does not have internal controls in place to comply with the procurement, suspension and debarment compliance requirements related to the program.

*Cause:* Internal controls are not in place to verify that the vendors contracted with in excess of \$25,000 related to the grant program are not suspended, debarred or otherwise excluded from doing business.

*Effect:* Noncompliance with the federal award program’s procurement, suspension and debarment compliance requirements could occur and not be detected and corrected timely.

*Auditors’ Recommendation:* Internal controls must be implemented to ensure that all vendors contracted with have not been suspended or debarred or otherwise excluded from doing business, prior to procuring their services. In order to verify this, program management should either obtain debarment certifications from the vendors or check the *Excluded Parties List System* website. Internal controls must also be implemented to maintain documentation supporting the debarment checks performed.

*Grantee Response:* The City’s Purchasing Department currently performs a routine State disbarment check on all pending contracts. We are exploring the possibility of extending this check to also routinely include the Federal excluded parties web site for all City contracts. Print - screen documentation for each inquiry will be maintained in the contract files and the City will also obtain vendor certifications that they have not been disbarred from providing goods and services to federally funded activities.

*Noncompliance Related to Major Programs*

- 12-12 ARRA - Energy Efficiency and Conservation Block Grant Program - CFDA No. 81.128;  
Fiscal year ended June 30, 2012

*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 payment requests 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 keeps electronic records for Federal Grants on the department's server. As requested, supporting documentation for payment requests for this project were sent to Sullivan, Rogers & Company LLC via email on November 8<sup>th</sup> and 9<sup>th</sup> of 2012. Despite best efforts, we were unable print out a copy of the payment request form from the Federal Department of Treasury Automated Standard Application for Payment (ASAP) system. Copies of the ASAP Payment Transaction Confirmation and Account Settlement Report that document when payment requests were submitted have been offered as an alternative.

- 12-13 ARRA - Energy Efficiency and Conservation Block Grant Program - CFDA No. 81.128;  
Fiscal year ended June 30, 2012

*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:* As a result of a misunderstanding on the part of the Public Building Department the reports were not submitted to the Comptroller for reconciliation to the City's general ledger prior to submission.

- 12-14 ARRA – Energy Efficiency and Conservation Block Grant Program – CFDA No. 81.128;  
Fiscal year ended June 30, 2012

*Condition and Criteria:* The equipment purchased with the federal grant funds is not labeled as federally funded equipment. Additionally, the City did not perform a physical inventory during the year.

*Cause:* Procedures are not in place to properly label the equipment purchased with the grant funds and to perform the required annual physical inventories.

*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 is labeled as federally funded equipment. Procedures must also be implemented to perform annual physical inventories of the equipment purchased with the grant funds and to reconcile the results with the City's inventory records.

*Grantee Response:* The 29 pieces of equipment listed have been tagged and labeled as federally funded equipment as noted and were inventoried on November 15, 2012.

#### D. Summary of Prior Audit Findings

##### 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:* 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).

*Current Status:* This finding has been resolved.

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

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

*Current Status:* This finding has been resolved.

***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:* Program management reported all lunches served in the claims for reimbursement submitted to the DESE, even if they did not contain the required nutrient levels and components.

*Current Status:* This finding has been resolved.

**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:* 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.

*Current Status:* This finding has been resolved.

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

*Current Status:* The status has remained unchanged. Please see current year Finding 12-8.

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

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

*Current Status:* The status has remained unchanged. Please see current year Finding 12-9.

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

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

*Current Status:* The status has remained unchanged. Please see current year Finding 12-10.

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

*Current Status:* The status has remained unchanged. Please see current year Finding 12-12.

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

*Condition:* 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.

*Current Status:* The status has remained unchanged. Please see current year Finding 12-13.

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

*Condition:* 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.

*Current Status:* The City has implemented procedures to segregate the federal equipment in the inventory listing. However, the status has remained unchanged regarding the labeling of the federal equipment. Please see current year Finding 12-14.