

CITY OF HOLYOKE, MASSACHUSETTS

Independent Auditors' Reports Pursuant
to Governmental Auditing Standards
and The Single Audit Act Amendments of 1996

For the Year Ended June 30, 2010

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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 Board of Selectmen
City of Holyoke, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holyoke, Massachusetts, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 16, 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's 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying schedule of findings and ques-

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tioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 10-1 and 10-2 in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the schedule of findings and questioned costs as items 10-3 and 10-4.

We noted other matters that we reported to management of the City in a separate letter dated November 16, 2011.

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

This report is intended solely for the information and use of management, the Mayor, City Council, others within the entity, 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.

Melanson Heath + Company P.C.

Greenfield, Massachusetts
November 16, 2011



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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 Board of Selectmen
City of Holyoke, Massachusetts

Compliance

We have audited the City of Holyoke, Massachusetts's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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

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reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in items 10-5 through 10-10 in the accompanying schedule of findings and questioned costs, the City did not comply with certain requirements that could have a direct and material effect on its Title I, Title I ARRA, SPED, SPED ARRA and School Lunch grants. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City 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 year ended June 30, 2010.

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 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'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 and other deficiencies that we consider to be significant deficiencies.

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 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 deficiency in internal control over

compliance described in the accompanying schedule of findings and questioned costs as items 10-8 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 10-9 to be a significant deficiency.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2010, and have issued our report thereon dated November 16, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's 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'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 them.

This report is intended solely for the information and use of management, the Mayor, City Council, others within the entity, 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.

Melanson Heath + Company P.C.

Greenfield, Massachusetts
November 16, 2011

CITY OF HOLYOKE, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Grantor Pass-through Grantor <u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through Commonwealth of Massachusetts		
Department of Education		
National School Lunch Program	10.555	\$ 2,388,991
School Lunch Equipment Assistance - ARRA	10.579	126,340
<u>U.S. Department of Defense</u>		
Air Force Junior ROTC Program	12.000	61,988
Public Law 874	12.000	2,763
<u>U.S. Department of Housing and Urban Development</u>		
Community Development Block Grant	14.219	1,102,465
O.C.D. Home Program	14.239	1,066,057
Economic Development Initiative	14.251	112,752
CDBG-R - ARRA	14.253	163,938
Homeless Prevention/Rapid Rehabilitation - ARRA	14.257	159,710
<u>U.S. Department of Justice</u>		
Byrnes Youth Jobs - ARRA	16.580	145,815
COPS Problem Solving - ARRA	16.710	195,415
Justice Assistance Grant	16.735	59,403
Police Staffing - ARRA	16.803	131,129
Ed Byrne Mem. JAG - ARRA	16.804	58,765
<u>U.S. Department of Labor</u>		
Passed through Commonwealth Corporation		
Hampshire Training and Employment Consortium		
Youth At Risk Summer Jobs	17.259	327,076
Youth At Risk Summer Jobs - ARRA	17.259	237,059
<u>Federal Transit Administration, Department of Transportation</u>		
Transportation Equity Act	20.000	29,687
<u>National Endowment for the Humanities</u>		
Promotion of the Humanities-Public Programs	45.164	137,758
<u>U.S. Department of Environmental Protection</u>		
Brownfield Clean-Up - ARRA	66.818	4,314
Brownfield Assessment Program	66.818	79,627
Adams Pakkawoods Clean-up	66.818	24,578
<u>U.S. Department of Energy</u>		
Energy Efficiency and Conservation		
Block Grants (EECBG) - ARRA	81.128	163,656

(continued)

(continued)

U.S. Department of Education

Passed through Commonwealth of Massachusetts

Department of Education

ABE Federal Programs	84.002	181,961
Title I	84.010	7,126,274
Comp. School Reform. Demo	84.010	653
SPED Local School Grant	84.027	1,998,664
School-to-Work	84.027	48,268
Occ. Ed. Vocational Skills	84.048	195,856
Title VI	84.151	375
MA Family Lit/Support Pilot	84.162	73,457
Early Child. Sp. Ed.	84.173	60,840
Curriculum Inst. And Assess. Alignment	84.173	13,323
Drug Free School	84.186	120,160
McKinney Homeless - ARRA	84.196	31,252
Full Service Comm. School Pilot	84.215	49,120
21st Century Learning Centers	84.287	1,196,108
Even Start Family Literacy	84.314	8,517
Tech. for Data Driven Decisions	84.318	36,766
Enhanced Ed. Thru Technology	84.318	45,078
MA Reading First	84.357	35,313
LEP Support	84.362	297,022
MA Math/Science Partnership	84.366	2,797
Class Size Reduction	84.367	791,222
School Improvement Redesign/Reconstruct	84.377	192,453
Curriculum Frameworks	84.386	578
Title I - ARRA	84.389	1,353,056
IDEA Stimulus Program	84.392	792,685
State Fiscal Stabilizaton Fund - ARRA	84.394	1,491,527
Fire Staffing - ARRA	84.397A	226,853

Department of Health and Human Services

Office of the Secretary

Medical Reserve Corps Small Grant Program	93.008	3,848
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Center for Disease Control and Prevention

Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	<u>4,533</u>
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\$ 23,157,845

See Independent Auditors' Report on Compliance with OMB A-133.
State identifying numbers were not available for the pass-through grants listed above.
This schedule has been prepared on the modified accrual basis of accounting.

CITY OF HOLYOKE, MASSACHUSETTS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *qualified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? X yes none reported

Type of auditors' report issued on compliance for major programs: Unqualified for all major programs except Title I (84.010), Title I ARRA (84.389), Special Education (84.027 / 84.173), Special Education ARRA (84.392) and School Lunch (10.555).

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555	National School Lunch Program
14.219	Community Development Block Grant
14.239	Home Program
17.259	Workforce Investment Act
84.010 / 84.389	Title I Cluster (ARRA)
84.027 / 84.173 / 84.392	SPED Cluster (ARRA)
84.367	Class Size Reduction
84.394 / 84.397A	State Fiscal Stabilization Fund – ARRA Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$ 694,735

Auditee qualified as low-risk auditee?

yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding

Finding/Noncompliance

10-1

IMPLEMENT REGULAR RECONCILIATION PROCEDURES FOR KEY ACCOUNTS – (MATERIAL WEAKNESS)

During the City's fiscal year 2010 audit (and also noted in previous reports issued to the City) we determined that key balance sheet accounts in the City's general ledger are not regularly reconciled with supporting detail maintained by the City Treasurer and Collector Offices. These accounts include:

- Cash and investments
- Tax liens receivable
- Tax foreclosures receivable
- Real and personal property tax receivable
- Excise tax receivable

Timely and accurate reconciliations have been hampered by the fact that supporting detail for cash, tax liens receivable and tax foreclosure receivable found internally in the Treasurer's Office has not been regularly and accurately maintained, thereby making the reconciliation to the City's general ledger difficult in most instances and impossible in others. Additionally, in fiscal year 2010 the Collector's Office could not provide detail accounts receivable records to support the general ledger balances for real, personal property and motor vehicle excise tax receivables.

These circumstances have resulted in the following:

- Issuance of the City's Fiscal Year 2010 financial statements has been significantly delayed.
- Issuance of the City's OMB A-133 (Single Audit) Reports have been significantly delayed, resulting in non-compliance with federal reporting requirements.
- The City's Fiscal Year 2010 audited financial statements have been issued with a qualified opinion.

We recommend the City continue the remediation procedures regarding the Treasurer's cash book currently underway. We further recommend the City begin the process of reconciling the tax lien and foreclosure accounts receivable balances as soon as possible either by committing internal resources, if available, or contracting with an outside firm. We also recommend the Collector's Office retain supporting documentation at year end

for real, personal property and motor vehicle excise tax receivables. Once these accounts have been reconciled within the Treasurer and Collector's Offices, any necessary adjustments can be proposed for the City's general ledger and a regular and meaningful reconciliation of general ledger balances to supporting detail can be implemented. Implementation of these recommendations will provide the City with accurate balances in the tax lien, foreclosure, real estate, personal property and motor vehicle excise receivable accounts in the City's general ledger.

10-2 IMPROVE CONTROLS IN THE TAX COLLECTOR'S OFFICE (MATERIAL WEAKNESS)

During our review of Tax Collector's Office procedures, we noted several areas where controls should be improved.

- Increase Frequency of Tax Collector Turnovers
As reported in the prior year, the Tax Collector turns over receipts to the Treasurer once a month. This results in significant balances in the Tax Collector bank account during periods of high volume tax collection and a decrease in investment revenue to the City, since those funds are not available for investment.
- Record and Reconcile Parking Ticket Receivable
The City does not record and reconcile its parking ticket receivable balance. Commitments and abatements are not provided to the City Auditor's Office for inclusion in the general ledger. Control totals are not maintained and reconciled to the detailed outstanding list and general ledger. This significantly increases the risk that errors or irregularities related to parking ticket transactions may occur and go undetected.
- Reconcile Detail Receivable Balances to Control Totals
As has been reported since fiscal year 2001, there were many variances between the Collector's tax receivable control totals and the detailed "balance due" report totals. The result is that either receivables due to the City are not reflected in the City's financial records or are not reflected in detail balance due reports and therefore cannot be collected. Furthermore, there are receivable balances both on the Collector's control and general ledger for levy year 2005 and prior real estate taxes. These levy years have been committed to tax title and therefore should have zero balances. Control totals should always equal the total of the detailed accounts receivable lists to ensure that the amounts due the City are both collectible and properly recorded.

Strong internal controls are integral to any accounting system. We recommend the City improve the controls in the Tax Collector's Office by increasing the frequency of turnovers to the Treasurer, providing copies of turnover forms directly to the City Auditor's Office, implementing regular reconciliations of turnovers to cash in bank, and regularly reconciling detailed receivable reports to the Collector's control and general ledger.

10-3 COMPLY WITH MASSACHUSETTS GENERAL LAWS - NUMBER OF ASSESSORS – (COMPLIANCE FINDING)

The City currently has two members on the Board of Assessors. Massachusetts General Law, Chapter 41, Section 24 requires that the Board of Assessors for a City consist of one, three, five, seven, or nine members.

We recommend the City either increase or decrease the number of Assessors on the Board to comply with Massachusetts General Laws.

10-4 COMPLY WITH IRS REQUIREMENTS FOR ISSUANCE OF FORM 1099 (COMPLIANCE FINDING)

The Internal Revenue Service (IRS) requires businesses (including not-for-profit organizations) to issue a Form 1099 to any individual or unincorporated business paid in excess of \$ 600 per calendar year for services rendered.

This is required whether these payments are spread out over the course of the year or are paid in one lump sum payment.

This form is generally not required to be issued to incorporated businesses.

Our audit revealed the City does not issue IRS Form 1099's to applicable individuals and businesses. We recommend the City do so to comply with IRS regulations.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
10-5	Title I / Title I ARRA 84.010 / 84.389 SPED / SPED ARRA 84.027 / 84.173 / 84.392	<u>ASSURE TIMELY SUBMISSION OF FEDERAL GRANT REPORTS (COMPLIANCE FINDINGS)</u> <u>Criteria</u> Final Financial Reports for federal grants are required to be submitted within 60 days of the end of the grant period. For the Title I and Title I ARRA grants and the SPED and IDEA ARRA grants deadlines for submission were October 31, 2010 and September 30, 2010 respectively. <u>Condition and Effect</u> Our audits of various City federal grants revealed that the final financial reports (State Form FR-1), were not submitted in a timely manner. Final reports for the grants reviewed were due and submitted as follows:	N/A

<u>Grant</u>	<u>Final Report Due</u>	<u>Final Report Submitted</u>
Title I	10/31/10	03/02/11
Title I ARRA	08/31/10	09/13/10
SPED	10/31/10	11/01/10
IDEA ARRA	08/31/10	10/19/10
SFSF ARRA	08/31/10	10/08/10
Fire Dept. O/T	04/15/10	04/27/10
Teachers Quality	10/31/10	11/03/10

Because this requirement has to do with the timing of submission of reports and not their accuracy, there are no questioned costs related to this finding.

Cause

The School and Fire Departments do not have adequate procedures in place to ensure compliance with federal reporting regulations related to their Title I and Title I ARRA, SPED and IDEA ARRA and SFSF ARRA Fire Department Overtime grants.

Recommendation

We recommend the School and Fire Departments establish procedures to ensure that grant reports are submitted on a timely basis, thereby ensuring compliance with grant requirements.

City's Corrective Action Plan

The Grants Department and the Finance Department have both been working diligently to improve upon all areas of grants management. Historically, final report submissions have been delayed in large part due to reconciliation of late purchases. For fiscal year 2011, the Grants Department began setting an earlier deadline for entering requisitions to expend grant funds. This was a big change to the District's processes, and the results will improve as we continue to enforce this requirement. Additionally, continual review of open purchase orders throughout the year will allow for closing of unneeded P.O.s and release of funds earlier in the year so that funds can be fully expended on a timely basis.

10-6	Title I ARRA 84.389	<u>IMPROVE GRANT REPORTING – TITLE I ARRA / (AMERICAN RECOVERY AND REINVESTMENT ACT) (COMPLIANCE FINDING)</u>	\$ 34,800
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Criteria

Final Financial Reports for federal grants are required to accurately reflect the City's and School Departments internal accounting records.

Condition and Effect

Our audit of the Final Financial Report submitted for the Title I ARRA grant revealed an over-reporting of expenditures due to the double counting of certain expenditures. Due to this error the School Department over-reported Title I ARRA funds expended on its Final Financial Report and ultimately returned \$ 34,800 less unexpended grant funds than was required. As a result we question \$ 34,800 of Title I ARRA costs.

Cause

The School Department does not have adequate procedures in place to ensure accurate reporting of its Title I ARRA expenditures.

Recommendation

We recommend the School Department establish procedures to ensure that grant reports are reconciled to supporting documentation, specifically, the City's General Ledger and internal financial records maintained by the School Department, thereby ensuring compliance with grant requirements.

City's Corrective Action Plan

This particular error was caused by a "glitch" in Munis which shows encumbered fund that are in process of being warranted but not yet posted as encumbered on one report and as expended on another, combined with a timing issue on this same expense being posted to Access. This issue has been identified, and our grants accountant is checking with our Access clerk when such a discrepancy is found to avoid such errors.

10-7

Title I
84.010

MAINTAIN TIME AND EFFORT DISTRIBUTION RECORDS – TITLE I (COMPLIANCE FINDING)

\$ 35,150

Criteria

OMB Circular A-87 requires that time and effort documentation for employees charged to federal grants be maintained. Employees fully charged to the grant and working solely on grant activities must furnish semi-annual certifications that they were solely engaged in activities supported by the grant. An employee who works in part on a single Federal program and in part on other activities funded by other revenue sources, must maintain time and effort distribution records that indicate the portion of time dedicated to each single cost objective.

Condition and Effect

Our audit found that while the School Department maintained adequate documentation of time and effort for some Title I employees, the payroll records for three out of twenty employees tested did not include sufficient time and effort documentation. The total of these three employees' wages charged to the grant was \$ 35,150, and due to insufficient documentation, these costs are questioned.

Cause

The School Department does not have adequate procedures to ensure that all grantees provide the required documentation.

Recommendation

We recommend the School Department establish procedures to comply with Federal grant time and effort reporting requirements as detailed in OMB Circular A-87.

City's Corrective Action Plan

We are investigating the reason for the insufficient documentation, and will take action to correct it. We are also trying to minimize the occurrences of having split funding sources for staff being paid from federal grants.

10-8 National School Lunch Program 10.555

IMPROVE CONTROLS OVER PROGRAM INCOME – SCHOOL LUNCH PROGRAM (COMPLIANCE FINDING/MATERIAL WEAKNESS)

N/A

Criteria

The School Food Service Program generates income (program income) from the sales of lunches, breakfasts, etc. These funds, along with federal and state reimbursements, are accumulated in a revolving fund authorized by Massachusetts General Law Chapter 548. Income generated by the Food Service Program should be subject to adequate internal controls.

Condition and Effect

During our testing of controls over School Lunch Program income we noted several areas where weaknesses exist:

- Turnovers from the individual schools are not done on a regular basis.
- There is no documentation of the chain of custody for receipts. Receipts are picked up at each school on an irregular basis and no

verification is supplied or requested to ensure that funds are actually turned over to the central office.

- A copy of the point of sale report used by the individual school to reconcile receipts is not included with the turnover to the central office.
- Schools that collect the charges are not provided with a monthly deposit report from the central office. As a result, they are unable to reconcile the original collection records to what was ultimately deposited in the bank.
- Weekly sales reports do not include a breakdown of cash (currency) and checks that agrees with the daily records and bank deposit amount. This results in an incomplete audit trail over cash.
- Copies of turnovers to the City Treasurer are not simultaneously provided to the City Auditor. Consequently the City Auditor is unable to verify that all funds were deposited intact by the Treasurer's Office.

There are no questioned costs related to this finding as it involves procedural weaknesses over receipts/revenue and not the ineligibility of expenditures charged to the program.

Cause

The weaknesses identified above result from the lack of adequate internal controls over School Lunch Program receipts.

Recommendation

We recommend the internal controls over program income be evaluated and improved to ensure: a clear audit trail over cash; reconciliation of collection records to actual bank deposits; reconciliation of system reports and rosters to collections; and that procedures be implemented to improve staff accountability. These measures will help to reduce the risk of errors or irregularities occurring and going undetected and will help to safeguard the assets of the program.

City's Corrective Action Plan

Turnovers are now done daily at the two high schools and twice a week at the elementary schools. Procedures have been discussed and will be put into place by January, 2012 to ensure controls over chain of custody of funds, proper documentation of funds being turned over,

received and deposited. Our new NutriKids point-of-sale program has been installed, and is capable of producing accurate reports that will be used to reconcile checks and cash receipts and deposits. Turnover documentation will be provided simultaneously to the City Treasurer and the City Auditor starting immediately.

10-9 National School Lunch Program 10.555

IMPROVE VERIFICATION PROCEDURES - SCHOOL LUNCH PROGRAM (COMPLIANCE FINDING/SIGNIFICANT DEFICIENCY)

N/A

Criteria

By November 15 of each school year, the School Lunch Program must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals (unless the program is otherwise exempt from the verification requirement). The verification sample size is based on the total number of approved applications on file on October 1st (7 CFR Section 245.6a(a)).

Condition and Effect

The results of our audit of compliance with the verification process revealed the following exceptions:

1. The School Lunch Program did not complete the verification process by November 15th as required. The process was not completed until January.
2. Verification of free and reduced applications is required to be performed on 3% of the approved applications. According to the Verification Summary Report there were 1,591 approved applications and, therefore 48 should have been subject to the verification process. The Food Service Department only verified 13 applications.

Because the verification process was ultimately completed and our testing of the results of the process found no exceptions, there are no questioned costs relating to this finding.

Cause

The School Lunch Program does not have adequate procedures in place to ensure verification procedures are completed in a timely manner and that the verification form is submitted in a complete and accurate manner.

Recommendation

We recommend the School Lunch Program develop procedures to ensure compliance with federal verification requirements.

City's Corrective Action Plan

Our current food service program manager has indicated that the previous point-of-sale program was difficult to work with, and that it did not properly calculate the number of applications that needed to be verified. He anticipates that NutriKids will calculate this correctly. The information for the fiscal year 2012 verification letters was pulled from the system in mid-October, 2011, but letters have not yet been mailed. The manager will focus on getting letters out by the November 15th deadline in fiscal year 2013.

10-10

National School
Lunch Program
10.555

MAINTAIN INVENTORY OF FEDERALLY
FUNDED EQUIPMENT – SCHOOL LUNCH
PROGRAM (COMPLIANCE FINDING)

N/A

Criteria

Federal regulations, as stipulated in OMB Circular A-102, "The Common Rule", require that: (1) equipment be used in the program which acquired it or, when appropriate, other Federal programs; (2) equipment records shall be maintained; (3) a physical inventory of equipment shall be taken at least once every two years and be reconciled to the equipment records; (4) an appropriate control system shall be used to safeguard equipment; and (5) equipment shall be adequately maintained. The requirements apply to equipment having a useful life of more than one year and an acquisition cost of \$ 5,000 or more per unit. The School Lunch Program is considered to be federally funded for this purpose. Consequently, all equipment purchased by the program is considered "federally funded equipment".

Condition and Effect

The School Lunch Program does not prepare an inventory list of federally funded equipment. It also does not perform periodic physical inventories of equipment or monitor equipment for misappropriation. There are no questioned cost associated with this finding since it does not involve ineligible costs.

Cause

The School Department has not implemented inventory procedures to ensure compliance with federal requirements.

Recommendation

We recommend the School Lunch Program prepare a comprehensive inventory list of all federally funded equipment, identifying the equipment by purchase date, cost, serial number, source of Federal funding and location. We further recommend that a physical inventory be taken, at a minimum, every two years.

Implementation of these recommendations will ensure compliance with federal requirements as well as enhance the safeguarding of the School Department's assets.

City's Corrective Action Plan

Our current food service program manager has indicated that he will have an inventory of all School Lunch program equipment completed by June 30, 2012. He will also schedule a physical inventory at least once every two years.

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Current Year Resolution</u>
09-1	N/A	<u>IMPLEMENT REGULAR RECONCILIATION PROCEDURES FOR KEY ACCOUNTS – (MATERIAL WEAKNESS)</u>	Unresolved and repeated as current year finding 10-1.
09-2	N/A	<u>IMPROVE CONTROLS IN THE TAX COLLECTOR'S OFFICE (MATERIAL WEAKNESS)</u>	Unresolved and repeated as current year finding 10-2.
09-3	N/A	<u>COMPLY WITH MASSACHUSETTS GENERAL LAWS - NUMBER OF ASSESSORS – (COMPLIANCE FINDING)</u>	Unresolved and repeated as current year finding 10-3.
09-4	N/A	<u>COMPLY WITH IRS REQUIREMENTS FOR ISSUANCE OF FORM 1099 (COMPLIANCE FINDING)</u>	Unresolved and repeated as current year finding 10-4.
09-5	Brownfield Clean-up 66.818	<u>ENSURE COMPLIANCE WITH MASSACHUSETTS PROCUREMENT LAWS (COMPLIANCE FINDING / MATERIAL WEAKNESS) - EPA BROWNFIELD GRANT</u>	Satisfactorily Resolved.

09-6	National School Lunch Program 10.555	<u>COMPLY WITH FEDERAL PROCUREMENT REGULATION (COMPLIANCE FINDING / MATERIAL WEAKNESS) - SCHOOL LUNCH PROGRAM (NSLP)</u>	Satisfactorily Resolved.
09-7	National School Lunch Program 10.555	<u>REQUIRE ADEQUATE SUPPORTING DOCUMENTATION FOR CHARTWELLS PAYMENTS – SCHOOL LUNCH PROGRAM (COMPLIANCE FINDING, MATERIAL WEAKNESS)</u>	Satisfactorily Resolved.
09-8	National School Lunch Program 10.555	<u>IMPROVE CONTROLS OVER PROGRAM INCOME – SCHOOL LUNCH PROGRAM (COMPLIANCE FINDING, MATERIAL WEAKNESS)</u>	Unresolved and repeated as current year finding 10-8.
09-9	National School Lunch Program 10.555	<u>IMPROVE VERIFICATION PROCEDURES (COMPLIANCE FINDING / SIGNIFICANT DEFICIENCY) - SCHOOL LUNCH PROGRAM (NSLP)</u>	Unresolved and repeated as current year finding 10-9.
09-10	National School Lunch Program 10.555	<u>MAINTAIN INVENTORY OF FEDERALLY FUNDED EQUIPMENT – SCHOOL LUNCH PROGRAM (COMPLIANCE FINDING)</u>	Unresolved and repeated as current year finding 10-10.
09-11	LEP Support 84.365	<u>OFFER SERVICES TO ELIGIBLE PRIVATE SCHOOL STUDENTS (COMPLIANCE FINDING) – LEP SUPPORT GRANT</u>	Satisfactorily Resolved.