

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, 2011

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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 City Council
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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 3, 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'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 11-1 and 11-2 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 item 11-3.

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 response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, 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
May 3, 2012



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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 City Council
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, 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.

As described in items 11-4 through 11-10 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 National School Lunch Program, Title I, SPED, and Teacher Quality. 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, 2011.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 11-6 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-9 and 11-10 to be significant deficiencies.

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, 2011, and have issued our report thereon dated May 3, 2012. 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, 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
May 3, 2012

City of Holyoke, Massachusetts
Schedule of Federal Expenditures of Federal Awards
For the Year Ended June 30, 2011

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through State Department of Elementary and Secondary Education:		
School Breakfast	10.553	\$ 1,161,204
National School Lunch Program	10.555	1,784,105
Summer Program	10.559	<u>141,966</u>
Total U.S. Department of Agriculture		3,087,275
<u>U.S. Department of Defense</u>		
Air Force Junior ROTC Program	12.000	13,863
Public Law 874	12.000	<u>1,440</u>
Total Department of Defense		15,303
<u>U.S. Department of Housing and Urban Development</u>		
Community Development Block Grant	14.219	1,135,442
Economic Development Initiative	14.251	172,459
CDBG-R ARRA	14.253	196,990
Homelessness Prevention and Rapid Re-housing ARRA Program	14.257	313,845
Passed through Commonwealth of Massachusetts Department of Housing and Community Development HOME	14.239	<u>1,763,020</u>
Total Department of Housing and Urban Development		3,581,756
<u>U.S. Department of the Interior</u>		
<u>Fish and Wildlife Service</u>		
Log Pond Cove Water Chest.	15.642	<u>4,844</u>
Total Department of the Interior		4,844
<u>U.S. Department of Criminal Justice</u>		
ARRA Cops Hiring Grant	16.710	301,329
Justice Assistance Grant	16.735	40,576
Law Enforcement Block Grant	16.738	513
ARRA Police Staffing	16.803	866
ARRA Byrne JAG Grant	16.804	<u>86,419</u>
Total Department of Criminal Justice		429,703
<u>U.S. Department of Labor</u>		
Passed through Commonwealth Corporation Hampshire Training and Employment Consortium Youth At Risk Summer Jobs		
	17.259	<u>271,080</u>
Total Department of Labor		271,080

(continued)

(continued)	Federal CFDA <u>Number</u>	Federal <u>Expenditures</u>
<u>Program Title</u>		
<u>National Endowment for the Humanities</u>		
Promotion for the Humanities - Public Programs	45.164	<u>10,783</u>
Total National Endowment for the Humanities		10,783
<u>U.S. Department of Environmental Protection</u>		
Brownfield Clean Up - ARRA	66.818	45,754
Brownfields Assessment Program	66.818	<u>15,116</u>
Total Department of Environmental Protection		60,870
<u>U.S. Department of Education</u>		
Passed through State Department of Elementary and Secondary Education		
ABE Federal Programs	84.002	171,278
Title I Grants to Local Educational Agencies	84.010	6,544,957
Special Education - Grants to States	84.027	1,881,512
Vocational Education - Basic Grants to States	84.048	206,833
MA Family Literacy Support	84.162	76,245
Full Service Comm. School Pilot	84.215	76,548
21st Century Learning Centers	84.287	690,857
Education Technology State Grants	84.318	21,744
LEP Support	84.362	252,458
Improving Teacher Quality State Grants	84.367	1,029,897
Streamlining Data Management Systems	84.372	14,613
School Improvement Redesign/Reconstruct	84.377	233,591
ARRA McKinney Vento	84.387	31,732
Title I School Improvement ARRA	84.388	85,242
Title I ARRA	84.389	3,820,488
SPED ARRA	84.391	1,242,527
State Fiscal Stabilization Fund (SFSF) – Education State Grant	84.394	641,810
Education Jobs	84.410	556,830
Race to the top	84.412	33,942
Passed through Commonwealth of Massachusetts Department of Early Education and Care		
SPED Early Childhood	84.173	71,083
ARRA Pre-K IDEA	84.392	<u>80,590</u>
Total U.S. Department of Education		17,764,777
<u>U.S. Department of Health and Human Services</u>		
<u>Office of the Secretary</u>		
Medical Reserve Corps Small Grant Program	93.008	<u>5,880</u>
Total Department of Health and Human Services		<u>5,880</u>
<u>U.S. Department of Homeland Security</u>		
Assistance to Firefighter	97.044	<u>24,999</u>
Total Department of Homeland Security		<u>24,999</u>
Total Federal Expenditures		<u>\$ 25,257,270</u>

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

CITY OF HOLYOKE, MASSACHUSETTS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

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:

Community Development Block Grant Cluster	Unqualified
HOME Program	Unqualified
National School Lunch Program Cluster	Qualified
Title I Cluster	Qualified
SPED Cluster	Qualified
Teacher Quality	Qualified

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>
10.553/10.555/10.559	National School Lunch Program Cluster
14.219/14.253	Community Development Block Grant Cluster

14.239
84.010/84.389
84.027/84.173/84.391/84.392
84.367

HOME Program
Title I Cluster
SPED Cluster
Teacher Quality

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

\$ 757,718

Auditee qualified as low-risk auditee?

yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding

Finding/Noncompliance

11-1 Implement Regular Reconciliation Procedures for Key Accounts (Material Weakness)

Prior Year Issue:

In the prior year, we recommended that the City continue the remediation procedures regarding the Treasurer's cash book currently underway and that the City begin the process of reconciling the tax lien and foreclosure accounts receivable balances. In addition, we recommended that 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.

Current Year Status:

During the fiscal year 2011 audit, the Collector's office was able to provide detailed receivable records, however the detail did not agree to the general ledger. In addition, lien balances included utility liens. The system did not total liens by general and utility for comparison to the general ledger balances. The Treasurer's cash book continues to contain old balances that do not tie out to bank activity.

Further Action Needed:

We continue to recommend that the City reconcile all cash and receivable accounts.

City's Response:

Reconciliation between the City's general ledger and the summary control documents maintained by the City Treasurer and Tax Collector has been performed each calendar quarter for many years. Reconciliation of the summary control documents to the related detail records maintained by each office is in various stages, but is moving forward and is expected to be up to date within the next two years.

11-2 Improve Controls in the Tax Collector's Office (Material Weakness)

Prior Year Issue:

In the prior year, we recommended 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 reconciliation of turnovers to cash in bank, and regularly reconciling detailed receivable reports to the Collector's control and general ledger.

Current Year Status:

During fiscal year 2011, we noted that the City did not record or reconcile its parking ticket receivable balance. In addition, there were still many variances between the Collector's tax receivable control totals and the detailed "balance due" report totals.

Further Action Needed:

We continue to recommend that the City improve controls in the Tax Collector's office. In addition, we recommend that all receivables be recorded and reconciled.

City's Response:

The City is currently in the process of converting all parking tickets information to a new internal recording system. The City expects this process to be complete within the next two years at which time a parking tickets receivable will be recorded in the City's general ledger.

11-3 Comply with Massachusetts General Laws – Number of Assessors (Compliance Finding)

Prior Year Issue:

In the prior year, we recommended that the City either increase or decrease the number of Assessors on the Board to comply with Massachusetts General Laws.

Current Year Status:

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.

Further Action Needed:

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

City's Response:

The City and the Commonwealth are aware of the Massachusetts law regarding the composition of the Board of Assessors. The City Council appoints the board members and has discussed on several occasions the appointment of a third voting member, the most recent discussion occurring in October, 2011. Further vetting by the City Council is necessary before any further action will be taken.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>																								
11-4	Title I /Title I ARRA 84.010 / 84.389 SPED 84.027 / 84.173 Teacher Quality 84.367	<p><u>Assure Timely Submission of Federal Grant Reports (Compliance Finding)</u></p> <p><u>Criteria:</u> Final Financial Reports for federal grants are required to be submitted within 60 days of the end of the grant period.</p> <p><u>Condition:</u> Our audits of various City federal grants revealed that the final financial reports were not submitted in a timely manner. Final reports for the grants reviewed were due and submitted as follows:</p> <table border="1"> <thead> <tr> <th>Grant</th> <th>Final Report Due</th> <th>Final Report Submitted</th> </tr> </thead> <tbody> <tr> <td>Title I</td> <td>10/31/11</td> <td>12/13/11</td> </tr> <tr> <td>Title I ARRA</td> <td>8/31/11</td> <td>1/12/12</td> </tr> <tr> <td>Title I Bridge</td> <td>10/31/11</td> <td>12/02/11</td> </tr> <tr> <td>Title I Bridge</td> <td>10/31/11</td> <td>12/12/11</td> </tr> <tr> <td>SPED</td> <td>10/31/11</td> <td>12/01/11</td> </tr> <tr> <td>Early Childhood</td> <td>10/31/11</td> <td>11/04/11</td> </tr> <tr> <td>Teacher Quality</td> <td>10/31/11</td> <td>11/18/11</td> </tr> </tbody> </table> <p>Because this requirement has to do with the timing of submission of reports and not their accuracy, there are no questioned costs related to the finding.</p> <p><u>Effect:</u> The School Department does not have adequate procedures in place to ensure compliance with federal reporting requirements.</p> <p><u>Recommendation:</u> We recommend the School Department establish procedures to ensure that grant reports are submitted on a timely basis, thereby ensuring compliance with grant requirements.</p>	Grant	Final Report Due	Final Report Submitted	Title I	10/31/11	12/13/11	Title I ARRA	8/31/11	1/12/12	Title I Bridge	10/31/11	12/02/11	Title I Bridge	10/31/11	12/12/11	SPED	10/31/11	12/01/11	Early Childhood	10/31/11	11/04/11	Teacher Quality	10/31/11	11/18/11	N/A
Grant	Final Report Due	Final Report Submitted																									
Title I	10/31/11	12/13/11																									
Title I ARRA	8/31/11	1/12/12																									
Title I Bridge	10/31/11	12/02/11																									
Title I Bridge	10/31/11	12/12/11																									
SPED	10/31/11	12/01/11																									
Early Childhood	10/31/11	11/04/11																									
Teacher Quality	10/31/11	11/18/11																									

Corrective Action Plan:

The grants and finance departments of the City school system are continually working to improve all areas of grants management, especially the timeliness of reporting to meet compliance deadlines. The grants department has set earlier deadlines for entering requisitions to expend grant funds at the end of the grant periods. Over time and with increased enforcement, this will allow for more timely close-out of grants leading to more timely reporting.

11-5	Title I 84.010	<u>Maintain Employee's Time and Effort Records (Compliance Finding)</u>	\$ 83,760
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Teacher Quality 84.367	<u>Criteria:</u>	\$ 30,200
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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:

Our audit found that while the School Department maintained adequate documentation of time and effort for some employees, the payroll records for the grants manager and grants accountant, who were charged to both the Title I and Teacher Quality grants did not include sufficient time and effort documentation. The total of these two employees' wages charged to Title I was \$ 83,760 and the total charged to Teacher Quality was \$ 30,200, and due to insufficient documentation, these costs are questioned.

Effect:

The School Department does not have adequate procedures to ensure that all required documentation is completed.

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.

Corrective Action Plan:

The School Department recognizes the need for adequate documentation for time and effort distribution reporting. The documentation lapse for the two noted employees was an oversight. We will extend our time and effort distribution documentation procedures to include all levels and areas of central administration.

11-6	National School Lunch Program 10.555	<u>Improve Controls Over Program Income (Compliance Finding / Material Weakness)</u>	N/A
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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:

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 form 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.

Effect:

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.

Corrective Action Plan:

Beginning in fiscal year 2012, turnovers are performed daily at the two high schools and twice a week at the elementary schools. Procedures have also been established to ensure controls over chain of custody of

funds and proper documentation of funds being turned over, received and deposited. The 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 is now provided simultaneously to the City Treasurer and the City Auditor.

11-7 National School Lunch Program 10.555

Improve Verification Procedures (Compliance Finding)

N/A

Criteria:

By November 15th 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.

Condition:

The School Lunch Program did not complete the verification process by November 15th as required. The process was not completed until December.

Effect:

The School Lunch Program does not have adequate procedures in place to ensure verification procedures are completed in a timely manner.

Recommendation:

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

Corrective Action Plan:

NutriKids, the point-of-sale school lunch sales, cash and data-gathering program, has been installed. NutriKids is an easier to use and more accurate system than its predecessor and will properly calculate the number of applications requiring verification. Fiscal year 2012 will be a transition year, but beginning in fiscal year 2013, all verification letters will be dispensed before the annual deadline.

11-8 National School Lunch Program 10.555 Maintain Inventory of Federally Funded Equipment (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:

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 costs associated with this finding since it does not involve ineligible costs.

Effect:

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.

Corrective Action Plan:

The Food Service Program Manager indicated that an inventory of all School Lunch Program equipment will be completed by June 30, 2012. A physical inventory will then be conducted at least biennially.

11-9	National School Lunch Program 10.555	<u>Ensure Accuracy of Claims Submitted (Compliance Finding / Significant Deficiency)</u>	N/A
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Criteria:

The National School Lunch Program requires the City to provide accurate monthly claims reports that document the number of free, reduced, and paid meals served. Remittances to the City are based on these claim reports.

Condition:

For the one monthly claim that was tested we noticed various breakfast counts that were reported as free on the claim, but were reported as either reduced or paid on the supporting documentation. For the one month tested approximately \$ 1,000 was over-reimbursed due to this error.

Effect:

There is an increased risk of material incorrect Federal reimbursements occurring.

Recommendation:

We recommend the School Department improve the reconciliation process so that daily meal counts by school will support the monthly claim.

Corrective Action Plan:

Because Holyoke Public Schools is a Provision 2 district, all reimbursements are based on the most recent "test year"

percentage of students eligible for free and reduced lunches. No student pays for breakfast. Custodial staff at the schools were not consistent in recording free, reduced and full-priced breakfasts as students came through the line on a daily basis because these classifications did not affect the reimbursements. The reimbursement was and is based on the number of meals served times the percentages established during the test year. With the new NutriKids system, all students' meals are automatically recorded as free, reduced or full price and the monthly report reflects those numbers. A new test year will begin in October of 2012. Once completed, the results of that test year will be used by the government to determine reimbursement levels, again, based on meal count, until a new test year is completed. Test years are recommended to be recorded about every five years.

11-10	Title I ARRA 84.389	<u>Limit Cash on Hand to Immediate Need (Compliance Finding / Significant Deficiency)</u>	N/A
		<p><u>Criteria:</u> OMB Circular A-110 requires that grant recipients follow procedures to minimize the time elapsing between the receipt and disbursement of federal funds.</p>	
		<p><u>Condition:</u> Beginning in February 2011, the City had approximately \$ 500,000 of federal Title I ARRA cash on hand, which increased to over \$ 2 million on hand at June 30, 2011. The funds were slowly used in FY 2012 and as of February 2012 there was still approximately \$ 193,000 on hand.</p>	
		<p><u>Effect:</u> The City has not established adequate procedures to ensure that federal cash on hand is minimal.</p>	
		<p><u>Recommendation:</u> We recommend that the City establish procedures to ensure that the amount of</p>	

federal cash on hand is minimal at all times. No questioned cost is noted for this finding as this is an administrative issue.

Corrective Action Plan:

The state's Grants Management Request for Funds system automatically calculates the maximum amount of money that the state will be able to forward to us based on how much cash they have already given to us and how much we have expended to date. It has been our practice to ask for this maximum amount on a monthly basis. In the future, we will be analyzing cash on hand, projecting the amount of expense we anticipate for the upcoming month and adjusting our request for funds accordingly. In addition, we will ask for the balance of available funds only if we expect to spend that balance and will wait for the last available request period (typically in July for a federal grant) to make our final request.

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Current Year Resolution</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>	Unresolved and repeated as current year finding 11-4
10-6	Title I ARRA 84.389	<u>Improve Grant Reporting – Title I ARRA / (American Recovery and Reinvestment Act) (Compliance Finding)</u>	Satisfactorily Resolved.
10-7	Title I 84.010	<u>Maintain Time and Effort Distribution Records – Title I (Compliance Finding)</u>	Unresolved and repeated as current year finding 11-5

10-8	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 11-6
10-9	National School Lunch Program 10.555	<u>Improve Verification Procedures – School Lunch Program (Compliance Finding/Significant Deficiency)</u>	Unresolved and repeated as current year finding 11-7
10-10	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 11-8