

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, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1
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
Schedule of Findings and Questioned Costs	9



MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 5, 2013. 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

Management of the City is responsible for establishing and maintaining effective 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 questioned 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 in items 12-1 and 12-2 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 12-3.

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 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, 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.
March 5, 2013



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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' 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, 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.

As described in items 12-4 through 12-7 in the accompanying schedule of findings and questioned costs, the City did not comply with certain requirements that are applicable to its National School Lunch Program, Highway Planning, and FEMA

Disaster 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 compliance 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, 2012.

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.

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.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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, 2012 and have issued

our report thereon dated March 5, 2013. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's 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 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, such information is fairly stated, in all material respects, in relation to the 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, 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.
June 12, 2013

City of Holyoke, Massachusetts
Schedule of Federal Expenditures of Federal Awards
For the Year Ended June 30, 2012

<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	\$ 583,042
National School Lunch Program	10.555	1,934,565
Summer Program	10.559	<u>146,218</u>
Total U.S. Department of Agriculture		2,663,825
<u>U.S. Department of Defense</u>		
Air Force Junior ROTC Program	12.000	<u>43,474</u>
Total Department of Defense		43,474
<u>U.S. Department of Housing and Urban Development</u>		
Community Development Block Grant	14.219	1,715,432
Economic Development Initiative	14.251	61,111
Homelessness Prevention and Rapid Re-housing ARRA Program	14.257	78,116
Passed through Commonwealth of Massachusetts Department of Housing and Community Development HOME	14.239	<u>692,844</u>
Total Department of Housing and Urban Development		2,547,503
<u>U.S. Department of Criminal Justice</u>		
ARRA Cops Hiring Grant	16.710	301,485
Justice Assistance Grant	16.735	7,808
ARRA Byrne JAG Grant	16.804	<u>73,755</u>
Total Department of Criminal Justice		383,048
<u>U.S. Department of Labor</u>		
Passed through Commonwealth Corporation Hampshire Training and Employment Consortium Youth At Risk Summer Jobs	17.259	<u>179,878</u>
Total Department of Labor		179,878
<u>U.S. Department of Transportation</u>		
Passed through Commonwealth of Massachusetts Department of Transportation Highway Planning and Construction ARRA	20.205	<u>927,931</u>
Total Department of the Interior		927,931

(continued)

(continued)	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Environmental Protection</u>		
Sewer Projects	66.606	782,163
Brownfields Assessment Program	66.818	6,331
Passed through Massachusetts Water Pollution Abatement Trust		
Clean Water Grant - ARRA	66.458	<u>735,596</u>
Total Department of Environmental Protection		1,524,090
<u>U.S. Department of Education</u>		
Passed through State Department of Elementary and Secondary Education		
ABE Federal Programs	84.002	155,099
Title I Grants to Local Educational Agencies	84.010	6,421,628
Special Education - Grants to States	84.027	2,061,559
Circuit Breaker Supplemental	84.027A	39,522
Vocational Education - Basic Grants to States	84.048	260,410
MA Family Literacy Support	84.162	3,057
Drug Free Schools	84.186	3,858
McKinney Homeless	84.196	21,330
Full Service Comm. School Pilot	84.215	72,894
21st Century Learning Centers	84.287	449,266
Massgrad Initiative	84.360	123,639
LEP Support	84.362	231,745
Improving Teacher Quality State Grants	84.367	576,225
Streamlining Data Management Systems	84.372	1,387
Title I School Improvement ARRA	84.388	711,386
Title I ARRA	84.389	2,436,202
SPED ARRA	84.391	(3,987)
State Fiscal Stabilization Fund (SFSF) – Education State Grant	84.394	144,815
Race to the Top	84.395	778,302
Education Jobs	84.410	3,349,629
Passed through Commonwealth of Massachusetts Department of Early Education and Care		
SPED Early Childhood	84.173	53,189
ARRA Pre-K IDEA	84.392	<u>103,564</u>
Total U.S. Department of Education		17,994,719
<u>U.S. Department of Health and Human Services</u>		
<u>Office of the Secretary</u>		
Medical Reserve Corps Small Grant Program	93.008	3,866
Passed through Commonwealth of Massachusetts Department of Public Health		
Personal Responsibility Education Program	93.092	<u>29,218</u>
Total Department of Health and Human Services		33,084 (continued)

(continued)	Federal CFDA Number	Federal Expenditures
<u>Program Title</u>		
<u>U.S. Department of Homeland Security</u>		
Disaster Grant	97.036	2,514,428
Passed through Massachusetts Emergency Management Agency		
Homeland Security Local Preparation	97.042	<u>17,495</u>
Total Department of Health and Human Services		<u>2,531,923</u>
Total Federal Expenditures		<u>\$ 28,829,475</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, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Qualified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Type of auditors' report issued on compliance for major programs:

Title I Cluster	Unqualified
SPED Cluster	Unqualified
Race to the Top	Unqualified
Education Jobs	Unqualified
National School Lunch Program Cluster	Qualified
Highway Planning	Qualified
FEMA Disaster Grant	Qualified

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

(continued)

(continued)

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
20.205	Highway Planning
84.010/84.389	Title I Cluster
84.027/84.173/84.391/84.392	SPED Cluster
84.395	Race to the Top
84.410	Education Jobs
97.036	FEMA Disaster Grant

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

\$864,884

Auditee qualified as low-risk auditee?

yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding

Finding/Noncompliance

- 12-1 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 continue the process of reconciling the tax lien and foreclosure accounts receivable balances by detailing out general and utility 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 2012 audit, the Collector's office was able to provide detailed records; however, the tax title account still did not agree to the general ledger. The Treasurer's office has resolved most of the cash book variances, but it was unable to reconcile the Stabilization trust account to the cashbook.

Further Action Needed:

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

City's Response:

The City Treasurer and Tax Collector are continuing the work to address the differences between their respective detailed parcel-based records and control records, including the general ledger. Due to the large amounts of data and limited available resources, an immediate resolution is not at hand. A target of sometime during fiscal year 2014 is projected.

- 12-2 Improve Controls in the Tax Collector's Office (Material Weakness)

Prior Year Issue:

In the prior year, we recommended that the City record and reconcile its parking ticket receivable balance as well as reconcile the many variances between the Collector's tax receivable control totals and the detailed "balance due" report totals.

Current Year Status:

These items have not been addressed in the current year.

Further Action Needed:

We continue to recommend that the City improve accounting and controls over parking tickets and other receivables in the Tax Collector's office.

Finding #

Finding/Noncompliance

City's Response:

Policy and procedure regarding timely, accurate and consistent accounting of all parking ticket activity continues to be in the discussion stages. Also, conversion of all parking tickets information to a new internal recordings system is continuing. Many details still need to be addressed, but when work on these issues is completed, a parking tickets receivable balance and all related accounting will be recorded in the City's general ledger.

12-3

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>
12-4	National School Lunch Program 10.555	<p><u>Improve Verification Procedures (Compliance Finding)</u></p> <p><u>Criteria:</u> 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.</p> <p><u>Condition:</u> The School Lunch Program did not complete the verification process by November 15th as required. The process was not completed until January.</p> <p><u>Effect:</u> The School Lunch Program does not have adequate procedures in place to ensure verification procedures are completed in a timely manner. No questioned costs are noted since this is a procedural issue.</p> <p><u>Recommendation:</u> We recommend that the School Lunch Program develop procedures to ensure compliance with federal verification requirements.</p> <p><u>Corrective Action Plan:</u> The process was much improved in FY13. In FY13, the first verification letter was sent out on November 5th, the second letter was sent out on November 16th, and the process was completed on December 4th. The food service department will work towards completing the process by November 15th in FY14 and beyond.</p>	N/A
12-5	National School Lunch Program 10.555	<p><u>Maintain Inventory of Federally Funded Equipment (Compliance Finding)</u></p> <p><u>Criteria:</u> Federal regulations, as stipulated in OMB Circular A-102, "The Common Rule",</p>	N/A

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
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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.

Effect:

The School Department has not implemented inventory procedures to ensure compliance with federal requirements. There are no questioned costs associated with this finding since it does not involve ineligible costs.

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.

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
12-6	National School Lunch Program 10.555	<p data-bbox="656 296 938 327"><u>Corrective Action Plan:</u> The food service program is planning to complete the required inventory of all equipment used in the food service program in the summer of 2013. The inventory will be repeated every two years.</p> <p data-bbox="656 531 1105 594"><u>Comply with Eligibility Requirements (Compliance Finding)</u></p> <p data-bbox="656 632 1203 863"><u>Criteria:</u> The City is authorized to award free or reduced meals to students whose family's income meet certain guidelines. However, the grant requires that the applications be maintained, and approved applications be consistent with the eligibility guidelines.</p> <p data-bbox="656 900 1203 1062"><u>Condition:</u> One of ten applications selected for testing indicated that the student was approved for reduced price meals; however, the student was receiving free meals.</p> <p data-bbox="656 1100 1203 1262"><u>Effect:</u> The condition results in the City not being in compliance with the grant guidelines. As a result, the City is at risk for unallowable costs.</p> <p data-bbox="656 1299 1203 1535"><u>Recommendation:</u> We recommend the City implement policies and procedures designed to ensure full compliance with federal eligibility regulations. Specific steps with the policies and procedures should address the review and approval process of applications.</p> <p data-bbox="656 1572 1203 1898"><u>Corrective Action Plan:</u> We have changed software programs from Format to NutriKids. In FY12, Format was being used, and there were software glitches that may have caused the system to incorrectly record the student as eligible for free lunch. An example given was that the system would sometimes double count family members, resulting in a larger than actual family size, and then identify the</p>	N/A

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
12-7	Highway Planning 20.205 FEMA Disaster 97.036	student as being eligible for free rather than reduced lunch. The NutriKids software program appears to be much more reliable, and we do not anticipate such errors to reoccur. <u>Improve Record Retention Procedures (Compliance Finding)</u> <u>Criteria:</u> The Federal Emergency Management Agency (FEMA) requires recipients of public assistance grants to retain documentation to support all claims and requests for emergency assistance reimbursement. <u>Condition:</u> A contractor was hired by the City to prepare the documentation required for FEMA and Highway grant reimbursement; however, FEMA representatives decided to use the information provided by the contractor to prepare the final submission themselves. As a result, FEMA personnel compiled the information needed but apparently did not provide the City with clear supporting documentation. Consequently, the City was unable to provide a clear summary of specific expenses to support all claims submitted. Costs were allocated between the highway and FEMA grants; however we were unable to determine how they were allocated. Amounts requested appear to be for allowable charges; however, they do not agree to the accounting records and there are additional charges in the accounting records that were not included on any of the requests. <u>Effect:</u> Federal record retention requirements were not met. No questioned costs are raised because the City was required to submit supporting documentation to FEMA as a condition of the grant reimbursement process.	N/A

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
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Recommendation:

We recommend that in the future, for each request for reimbursement, the City retain a master list of all vendor and payroll expenses, and a copy of actual invoices and payroll registers. This will result in compliance with the Federal documentation requirements to support all claims.

Corrective Action Plan:

For all future FEMA public assistance grants, prior to the submission of the final grant application, the City will require copies of all pertinent supporting documentation be provided for the application FEMA formally submits.

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>
11-4	Title I Cluster 84.010/84.389	<u>Assure Timely Submission of Federal Grant Reports (Compliance Finding)</u>
	SPED Cluster 84.027/84.173	This issue has been satisfactorily resolved.
	Teacher Quality 84.367	
11-5	Title I Cluster 84.010/84.389	<u>Maintain Employee's Time and Effort Records (Compliance Finding)</u>
	Teacher Quality 84.367	This issue has been satisfactorily resolved.
11-6	National School Lunch Program 10.555	<u>Improve Controls Over Program Income (Compliance Finding / Material Weakness)</u>
		This issue has been satisfactorily resolved.
11-7	National School Lunch Program 10.555	<u>Improve Verification Procedures (Compliance Finding)</u>
		This issue has not been resolved and is repeated as current year finding 12-4.
11-8	National School Lunch Program 10.555	<u>Maintain Inventory of Federally Funded Equipment (Compliance Finding)</u>
		This issue has not been resolved and is repeated as current year finding 12-5.
11-9	National School Lunch Program 10.555	<u>Ensure Accuracy of Claims Submitted (Compliance Finding / Significant Deficiency)</u>
		This issue has been satisfactorily resolved.
11-10	Title I ARRA 84.389	<u>Limit Cash on Hand to Immediate Need (Compliance Finding / Significant Deficiency)</u>
		This issue has been satisfactorily resolved.