

**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, 2013

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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*

### Independent Auditors' Report

To the City Council  
City of Holyoke, Massachusetts

We have audited 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 24, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control 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 2013-001 and 2013-002 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2013-003.

### **Government's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Melanson Heath + Company P.C.*

Andover, Massachusetts  
March 24, 2014



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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

## Independent Auditors' Report

To the City Council  
City of Holyoke, Massachusetts

### **Report on Compliance for Each Major Federal Program**

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 the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Cir-

cular 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Basis for Qualified Opinion on the School Lunch Cluster and CDBG Entitlement Programs***

As described in Findings 2013-004 and 2013-005 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2013-004	10.555	School Lunch Cluster	Special Tests
2013-005	14.218	CDBG	Reporting

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

***Qualified Opinion on the School Lunch Cluster and CDBG Entitlement Programs***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the School Lunch Cluster and CDBG Entitlement programs for the year ended June 30, 2013.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

## **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 24, 2014, which contained an adverse opinion on the Reporting Entity and the Aggregate Discretely Presented Component Units, a qualified opinion on the Business-Type activities and the Aggregate Remaining Fund Information, and an unmodified opinion on the other opinion units. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Melanson Heath + Company P.C.*

Andover, Massachusetts  
March 24, 2014

City of Holyoke, Massachusetts  
Schedule of Federal Expenditures of Federal Awards  
For the Year Ended June 30, 2013

<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	\$ 653,456
National School Lunch Program	10.555	1,980,750
Summer Program	10.559	161,145
Fresh Fruit and Vegetable Program	10.582	<u>77,492</u>
Total Department of Agriculture		2,872,843
<u>U.S. Department of Defense</u>		
Air Force Junior ROTC Program	12.000	<u>56,154</u>
Total Department of Defense		56,154
<u>U.S. Department of Housing and Urban Development</u>		
Community Development Block Grant	14.218	1,247,276
Economic Development Initiative	14.251	206,364
Depot Square Redevelopment	14.703	54,697
Passed through Commonwealth of Massachusetts Department of Housing and Community Development HOME	14.239	<u>580,559</u>
Total Department of Housing and Urban Development		2,088,896
<u>U.S. Department of the Interior</u>		
Passed through Commonwealth of Massachusetts Executive Office of Energy & Environmental Affairs		
Land and Water Conservation Grant	15.916	<u>445,277</u>
Total Department of the Interior		445,277
<u>U.S. Department of Criminal Justice</u>		
ARRA Cops Hiring Grant	16.710	342,951
Justice Assistance Grant	16.735	9,329
Jag 2011	16.738	2,850
ARRA Byrne JAG Grant	16.804	<u>75,707</u>
Total Department of Criminal Justice		430,837

(continued)

(continued)

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Labor</u>		
Passed through Commonwealth Corporation Hampshire Training and Employment Consortium Youth At Risk Summer Jobs	17.259	<u>162,179</u>
Total Department of Labor		162,179
<u>National Endowment for the Humanities</u>		
Creating Holyoke Grant	45.164	<u>260</u>
Total National Endowment for the Humanities		260
<u>U.S. Department of Environmental Protection</u>		
Sewer Projects	66.606	432,219
Brownfields Assessment Program	66.818	<u>253,978</u>
Total Department of Environmental Protection		686,197
<u>U.S. Department of Education</u>		
Passed through State Department of Elementary and Secondary Education		
ABE Federal Programs	84.002	15,851
Title I Grants to Local Educational Agencies	84.010	6,584,189
Special Education - Grants to States	84.027	1,965,950
Vocational Education - Basic Grants to States	84.048	210,763
McKinney Homeless	84.196	48,435
Full Service Comm. School Pilot	84.215	18,700
21st Century Learning Centers	84.287	576,042
Enhanced Ed through Technology	84.318	1,830
Reading First	84.357	4,874
Massgrad Initiative	84.360	248,349
LEP Support	84.362	267,995
Improving Teacher Quality State Grants	84.367	654,363
School Improvement/Redesign	84.377	3,877
School Redesign Implementation ARRA	84.388	996,506
State Fiscal Stabilization Fund (SFSF) – Education State Grant	84.394	4,367
Race to the Top	84.395	1,459,925
Education Jobs	84.410	18,457
Passed through Commonwealth of Massachusetts Department of Early Education and Care SPED Early Childhood	84.173	<u>65,326</u>
Total U.S. Department of Education		13,145,799

(continued)

(continued)	Federal CFDA Number	Federal Expenditures
<u>Program Title</u>		
<u>U.S. Department of Health and Human Services</u>		
<u>Office of the Secretary</u>		
Medical Reserve Corps Small Grant Program	93.008	1,486
Teen Pregnancy Prevention	93.938	7,027
Passed through Commonwealth of Massachusetts Department of Public Health		
Personal Responsibility Education Program	93.092	116,999
CDC Community Transformation	93.531	<u>49,034</u>
Total Department of Health and Human Services		174,546
 <u>U.S. Department of Homeland Security</u>		
Disaster Grant	97.036	770
Passed through Massachusetts Emergency Management Agency		
Homeland Security Local Preparation	97.042	<u>6,535</u>
Total Department of Homeland Security		<u>7,305</u>
 Total Federal Expenditures		 \$ <u><u>20,070,293</u></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, 2013

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued:

- Reporting Entity and Aggregate Discretely Presented Component Units Adverse
- Business-Type Activities and the Aggregate Remaining Fund Information Qualified
- All other Opinion Units Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  X  yes      no
- Significant deficiencies identified      yes  X  none reported

Noncompliance material to financial statements noted?

X  yes      no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?      yes  X  no
- Significant deficiencies identified      yes  X  none reported

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

School Lunch Cluster	Qualified
CDBG Entitlement	Qualified
Title I	Unmodified
Special Education Cluster	Unmodified
Improving Teacher Quality	Unmodified
School Redesign Implementation ARRA cluster	Unmodified
Race to the Top	Unmodified

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>
10.553/10.555/10.559/10.582	School Lunch Cluster
14.218	CDBG Entitlement
84.010	Title I
84.027/84.173	Special Education Cluster
84.367	Improving Teacher Quality
84.377/84.388	School Redesign Implementation ARRA Cluster
84.395	Race to the Top

Dollar threshold used to distinguish between type A and type B programs: \$602,109

Auditee qualified as low-risk auditee?  yes  no

## SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Finding #</u>	<u>Finding/Noncompliance</u>
2013-001	<p><u>Implement Regular Reconciliation Procedures for Key Accounts (Material Weakness)</u></p> <p><u>Prior Year Issue:</u> In the prior year, we recommended that the City continue the remediation procedures regarding the Treasurer's cash book currently underway, specifically reconciling the Stabilization trust account.</p> <p><u>Current Year Status:</u> At June 30, 2013 the Stabilization account still had not been reconciled. In addition, withholding accounts were not being reconciled on a monthly basis.</p> <p><u>Further Action Needed:</u> We continue to recommend that the City reconcile all cash and withholding accounts.</p> <p><u>City's Response:</u> The City Treasurer has determined that the reconciling items regarding the stabilization account reside in the beginning balance carried over from the former cash book to the newly established one as part of the cash book remediation efforts. Specific identification and disposition of these reconciling items will be executed during fiscal year 2014.</p>
2013-002	<p><u>Improve Controls in the Tax Collector's Office (Material Weakness)</u></p> <p><u>Prior Year Issue:</u> 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.</p>

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.

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 records 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. Also during fiscal year 2014, reconciliation between the Collector's control and the detailed balance due report has been completed. Appropriate accounting adjustments will be made to the Collector's control report and the City's general ledger in fiscal year 2014.

2013-003 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>
2013-004	School Lunch Cluster 10.555	<p><u>Improve Verification Procedures (Compliance Finding)</u></p> <p><u>Criteria:</u> By November 15<sup>th</sup> 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 15<sup>th</sup> as required. The process was not completed until December.</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 verifications requirements.</p> <p><u>City's Response:</u> Improvements have been made. In fiscal year 2014, the State extended the deadline until Friday, January 10<sup>th</sup>. The management company was working on submitting the Verification Collection report to the State on that day but had a question on a new form. The State responded to his question the following week, and the documentation was submitted on Thursday, January 16<sup>th</sup>. We anticipate that we will be able to submit the report on time this coming fall.</p>	N/A

2013-005

CDBG  
14.218

Comply with Reporting Requirements  
(Compliance Finding)

Undetermined

Criteria:

The Federal Funding Accountability and Transparency Act requires information disclosure concerning entities receiving federal awards such as federal contracts, subcontracts, grants, and subgrants. Prime recipients (the City) are required to register in the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) and report subaward data through FSRS for subawards of \$25,000 or greater. Requirements for reporting pursuant to the Federal Funding Accountability and Transparency Act are codified in the FAR interim final rule published in the Federal Register.

Condition:

The City issued five subawards greater than \$25,000, however, did not register in the FSRS and report the required data related to the subawards.

Effect:

The City did not fully comply with the Federal Funding Accountability and Transparency Act reporting requirements.

Recommendation:

We recommend that the City register all subawards in excess of \$25,000 in the FSRS as required by the Federal Funding Accountability and Transparency Act.

City's Response:

The City has instituted compliance with FFATA by registering all projects over \$25,000 in the system and adding this requirement to the compliance list in each contract file. In addition, this task has been assigned to the Office Manager for future contracts.

**SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS**

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>
12-4	School Lunch Cluster 10.555	<u>Improve Verification Procedures (Compliance Finding)</u>  This issue has not been resolved and is repeated as current year finding 2013-004.
12-5	School Lunch Cluster 10.555	<u>Maintain Inventory of Federally Funded Equipment (Compliance Finding)</u>  This issue has been satisfactorily resolved in the current year.
12-6	School Lunch Cluster 10.555	<u>Comply with Eligibility Requirements (Compliance Finding)</u>  This issue has been satisfactorily resolved in the current year.
12-7	Highway Planning 20.205  FEMA Disaster 97.036	<u>Improve Record Retention Procedures (Compliance Finding)</u>  This issue has been satisfactorily resolved in the current year.