

CITY OF SPRINGFIELD, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Finance Control Board
City of Springfield, 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 Springfield, Massachusetts, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 17, 2006. 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.

Compliance

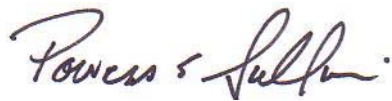
As part of obtaining reasonable assurance about whether the City of Springfield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material 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 that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item #05-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Springfield's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items #04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Springfield in a separate letter dated February 17, 2006.

This report is intended solely for the information and use of management of the City of Springfield, Massachusetts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "Powers & Sullivan". The signature is written in a cursive, flowing style.

February 17, 2006



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Finance Control Board
City of Springfield, Massachusetts

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Compliance

We have audited the compliance of the City of Springfield, Massachusetts, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2005. The City of Springfield'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 of Springfield's management. Our responsibility is to express an opinion on the City of Springfield'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 of Springfield'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 on the City of Springfield's compliance with those requirements.

As described in items #05-2 through #05-12 in the accompanying schedule of findings and questioned costs, the City of Springfield, Massachusetts did not comply with requirements regarding documentation, reporting, monitoring, and procurement that are applicable to its Community Development Block Grant Program, School Lunch/Breakfast Cluster, Home Investment Partnership Program, WIA Cluster, and Title 1 Grants to Local Educational Agencies. Compliance with such requirements is necessary, in our opinion, for the City of Springfield to comply with requirements applicable to those programs.

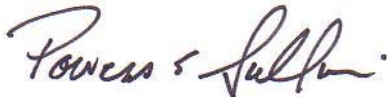
In our opinion, except for the noncompliance described in the preceding paragraph, the City of Springfield, Massachusetts, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Springfield, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Springfield's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management of the City of Springfield, Massachusetts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, appearing to read "Powers & Sullivan". The signature is written in a cursive, flowing style.

April 26, 2007



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INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Mayor and Finance Control Board
City of Springfield, 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 Springfield, Massachusetts, as of and for the year ended June 30, 2005, and have issued our report thereon dated February 17, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Springfield, Massachusetts' 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.

This report is intended solely for the information and use of management of the City of Springfield, Massachusetts, 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.

February 17, 2007

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
Cooperative Forestry Research	10.202	\$ 6,885
Cooperative Forestry Assistance	10.664	10,850
<u>Passed through Massachusetts Department of Education:</u>		
Food Distribution	10.550	491,170
School Breakfast Program	10.553	1,952,387
National School Lunch Program	10.555	5,274,448
Summer Food Service Program for Children	10.559	181,627
TOTAL DEPARTMENT OF AGRICULTURE		<u>7,917,367</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
Community Development Block Grants/Entitlement Grants	14.218	5,904,542
Loan Payback	14.221	147,392
Emergency Shelter Grants Program	14.231	210,449
Supportive Housing Program	14.235	1,568,285
Shelter Plus Care	14.238	136,124
Home Investment Partnership Program	14.239	2,705,080
Housing Opportunities for Persons with AIDS	14.241	826,929
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	962,443
Community Development Block Grants Section 108 Loan Guarantees	14.248	1,385,629
Lead-Based Paint Hazard Control In Privately-Owned Housing	14.900	522,884
TOTAL HOUSING AND URBAN DEVELOPMENT		<u>14,369,757</u>
U.S. DEPARTMENT OF JUSTICE:		
Local Law Enforcement Block Grants Program	16.592	992,829
Gang Resistance Education and Training	16.737	4,253
<u>Passed through Massachusetts Executive Office of Public Safety:</u>		
Legal Assistance for Victims	16.524	19,781
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	154,104
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	14,115
TOTAL JUSTICE		<u>1,185,082</u>
U. S. DEPARTMENT OF LABOR:		
<u>Passed through Senior Service America, Inc.</u>		
Senior Community Service Employment Program	17.235	523,127
<u>Passed through Massachusetts Community Corporation</u>		
Welfare to Work Grant	17.253	8,706
Workforce Investment Act	17.255	187,863
Workforce Investment Act Grants for Workforce Investment Boards	17.257	1,145
WIA Adult Program	17.258	1,186,950
WIA Youth Activities	17.259	1,586,649
WIA Dislocated Workers	17.260	4,282,694
TOTAL LABOR		<u>7,777,134</u>
ENVIRONMENTAL PROTECTION AGENCY:		
EMPACT Grant	66.500	11,667
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	43,281
TOTAL ENVIRONMENTAL PROTECTION		<u>54,948</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF ENERGY:		
Energy Conservation Improvements	81.052	16,886
U.S. DEPARTMENT OF EDUCATION:		
Magnet Schools Assistance	84.165	1,894,160
Fund for the Improvement of Education	84.215	880,297
Foreign Language Assistance	84.293	149,994
Technology Challenge Grants	84.303	342,220
School Renovation, IDEA, and Technology Grant Program	84.352	3,378
Early Reading First	84.359	487,140
<u>Passed through Massachusetts Department of Education:</u>		
Adult Education State Grant Program	84.002	139,442
Title I Grants to Local Educational Agencies	84.010	17,926,600
Special Education Grants to States	84.027	7,426,095
Vocational Education Basic Grants to States	84.048	405,248
Federal, State, and Local Partnership for Educational Improvement	84.151	298,712
Special Education Preschool Grants	84.173	230,157
Safe and Drug Free Schools and Communities State Grants	84.186	367,077
Education for Homeless Children and Youth	84.196	26,890
Even Start State Education Agencies	84.213	1,599
Even Start Migrant Education	84.214	70,670
State School Improvement Grants	84.218	594,290
Twenty-first Century Community Learning Centers	84.287	1,315,675
Education Technology State Grants	84.318	802,839
Special Education State Personnel Development	84.323	3,718
Vocational Education Occupational and Employment Information State Grants	84.346	12,404
Reading First State Grants	84.357	1,244,891
English Language Acquisition Grants	84.365	522,509
Mathematics and Science Partnerships	84.366	171,379
Improving Teacher Quality State Grants	84.367	3,150,861
TOTAL EDUCATION		38,468,245
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
Consolidated Health Centers	93.224	873,234
Healthy Communities Access Program	93.252	665,061
<u>Passed through Massachusetts Department of Public Health:</u>		
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	321,355
<u>Passed through Massachusetts Department of Higher Education:</u>		
Work Incentive/WIN Demonstration Program	93.029	717,438
TOTAL HEALTH AND HUMAN SERVICES		2,577,088
U. S. DEPARTMENT OF HOMELAND SECURITY:		
Assistance to Firefighters Grant	83.554	321,321
<u>Passed through Massachusetts Executive Office of Public Safety:</u>		
State and Local Homeland Security Exercise Program	97.006	11,732
State Homeland Security Program	97.073	208,724
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY		541,777
TOTAL		\$ 72,908,284

(concluded)

See notes to Schedule of Expenditures of Federal Awards

Note 1 – Definition of Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Springfield, Massachusetts. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

Note 2 – Significant Accounting Policies

The accounting and reporting policies of the City of Springfield, Massachusetts, are set forth below:

(a) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.

(b) Child Nutrition Cluster - Program expenditures represent federal reimbursement for meals provided during the fiscal year.

Note 3 – Subrecipients

The City of Springfield provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
WIA Youth Activities	14.218	\$ 97,238
WIA Dislocated Workers	14.235	726,187
WIA Youth Activities	17.259	271,285
WIA Dislocated Workers	17.260	31,040
Work Incentive/WIN Demonstration Program	93.029	<u>288,391</u>
Total		\$ <u>1,414,141</u>

Note 4 – Program Clusters

In accordance with Subpart A §_105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non Profit Organizations*, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559

WIA Cluster

WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Workers	17.260

Special Education Cluster

Special Education Grants to States	84.027
Special Education Preschool Grants	84.173

CDBG – Entitlement and (HUD-Administered) Small Cities Cluster

Community Development Block Grant/Entitlement Grants	14.218
Community Development Block Grant/Small Cities Program	14.219

A. Summary of Auditors' Results

1. The auditors' report expresses a qualified opinion on the financial statements of the City of Springfield, Massachusetts relating to the exclusion of financial data for three legally separate entities which accounting principles generally accepted in the United States of America require to be reported as discretely presented component units
2. Reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Springfield, Massachusetts, were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the City of Springfield, Massachusetts, expresses a qualified opinion.
6. Audit findings relating to the major federal award programs for the City of Springfield, Massachusetts, are described in Note C on the following pages.
7. The programs tested as major grants include:

<u>Program Title</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559
Community Development Block Grants/Entitlement Grants	14.218
Home Investment Partnership Program	14.239
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Workers	17.260
Title 1 Grants to Local Educational Agencies	84.010
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
Improving Teacher Quality State Grants	84.367

8. The threshold for distinguishing Type A and B programs was \$2,187,248
9. The City of Springfield, Massachusetts, was not determined to be a low-risk auditee.

B. Findings – Financial Statement Audit**CURRENT YEAR FINDING RELATING TO NONCOMPLIANCE**

05-1 Improper Treatment of Retiree Health Insurance Premiums

Condition: The City makes elective payments of health insurance premiums on behalf of its retired employees. During a recent change to an outside payroll service provider it was determined that for retirees who retired between January 1, 1993 and January 1, 2006, the City did not report the elective payments as taxable income amounts in box 2a of Form 1099-R. In addition, the City did not withhold federal income taxes as required and the elective payments may not have been treated as taxable income by retirees for calendar years prior to 2006.

Current status: On March 15, 2007, the City acting through its Finance Control Board, reached a settlement agreement with the Commissioner of the Internal Revenue Service. For the sum of \$250,000, the Internal Revenue Service agreed to resolve all matters relating to the improper treatment of the elective payments for all years affected by this oversight. For calendar year 2006 and for all years thereafter, the City has also agreed to report elective payments as income of its retirees as provided by law.

UPDATE OF PREVIOUS YEAR'S MATERIAL WEAKNESS AND NONCOMPLIANCE

04-1 Reconcile Receivable Accounts to Collector Records (Material Weakness)

Condition: Previous auditor's found several significant receivable accounts which were not reconciled to independently maintained lists of balances due. Several correcting audit adjustments were required to bring the variance to a tolerable level. In addition, previous auditor's found a general lack of reconciliation procedures over key receivable accounts.

Specifically, previous auditor's found the following weaknesses:

- The Collector's Office does not maintain an accurate control sheet for each receivable. A control sheet is used to summarize detail transactions posted to taxpayer accounts. The control sheet should be reconciled periodically to a detailed balance due report. Maintaining a control sheet for each receivable would also simplify the reconciliation to the general ledger accounts.
- The Collector's Office did not have updated accessible detail balances for motor vehicle excise receivables for levy years 1978 and prior. The Collector's information on those receivables is maintained in antiquated ledgers and kept in storage. The general ledger balances for those older year excise receivables was approximately \$5.3 million. Since no current comprehensive list of those receivables exists; their collectibility is questionable.

- The Treasurer's Office does not maintain a list of outstanding balances due for tax liens or foreclosures. Amounts due the City are kept by property (owner and parcel number); however no summarized list of these amounts has ever been created. As a result, there is no practical means by which the general ledger balances can be reconciled to detailed balances due.

Previous Auditors' Recommendation: We recommend the City implement procedures to reconcile receivable balances on a timely basis and that any required adjustments be posted prior to the end of the next month end period. Routine reconciliations of key accounts are essential to maintain adequate control over and assure the accuracy and completeness of the City's financial information.

City's Previous Response: The City has made significant progress in addressing the weaknesses cited.

Following is a brief explanation:

- The City Collector and Auditor are working together to develop a regular schedule to reconcile control ledgers to the detail unpaid balance reports.
- In fiscal year 2005, the City outsourced to private firms the collection of delinquent property taxes, motor vehicle excise, and parking tickets. The effort resulted in the collection of approximately \$10 million in delinquent receivables.
- The Treasurer now maintains a computerized list of tax liens and foreclosures. Moreover, the private firms referred to above have resulted in a substantial cleanup of delinquent records. The City will continue this effort.

Current Status: The most significant recommendations were adopted during fiscal year 2005. Matters relating to tax liens and foreclosures are still considered reportable conditions as of June 30, 2005.

04-2 Write-Off of Penalties and Interest (Noncompliance)

Condition: In accordance with Chapter 59, section 57 of the Massachusetts statutes, the City imposes interest and penalties on delinquent property taxes. The statutes provide a process to abate taxes under certain conditions. Interest and penalties are adjusted where an abatement has been granted. The statutes do not provide for a process to waive or adjust interest and penalties other than where the tax has been abated. Previous auditor's noted that the City of Springfield has waived penalty and interest amounts through verbal and written taxpayer agreements in violation of statutes.

Previous Auditors' Recommendations: Previous auditor's recommended that previously implemented procedures for waiving penalty and interest amounts through verbal and written taxpayer agreements be terminated and for the City to follow Chapter 59, section 57 of the Massachusetts statutes.

City's Response: The City is now in compliance with the Massachusetts statutes. In addition, the City has reviewed the agreements questioned and instituted an aggressive collection effort to correct any violations.

Current Status: The recommendations were adopted during fiscal year 2005. No similar findings were noted in the 2005 audit.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

**Questioned
Costs**

UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grants/Entitlement Grants
CFDA No: 14.218

05-2: *Condition and Criteria:* CDBG funding can only be used for “Special Economic Development Projects” that meet the criteria in CFR 570.203. Grantees must have data to support that assistance provided to carry out special economic development projects is appropriate by meeting the public benefits standard for job creation. The City has been unable to document that the projects met the public benefit standard of job creation as required. \$450,949

Cause: Lack of procedures in place to ensure that these documentation requirements are met.

Effect: The City is not in compliance with the grant agreements entered into with the Department of Housing and Urban Development (HUD).

Auditors' Recommendation: We recommend that the City implement procedures to comply with the documentation requirements outlined by the HUD program.

Community Development Block Grants/Entitlement Grants
CFDA No: 14.218

05-3: *Condition and Criteria:* One of the City's CDBG subrecipients has not completed its A-133 Single Audit as required for the fiscal years ended 2003 to 2005. None

Cause: Lack of procedures in place to monitor subrecipients audit requirements.

Effect: The City is not in compliance with the grant agreements entered into with the Department of Housing and Urban Development (HUD).

Auditors' Recommendation: We recommend that the City implement procedures to monitor the on-going audit requirements of its subrecipients.

**UNITED STATES DEPARTMENT OF AGRICULTURE
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

School Breakfast Program
National School Lunch program
Summer Food service program for Children
Home Investment Partnership Program
CFDA No: 10.553
CFDA No: 10.555
CFDA No: 10.559
CFDA No: 14.239

05-4: *Condition and Criteria:* Non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. We inquired about the Child Nutrition Cluster and Home Program's compliance with this requirement and were informed that there are no procedures in place to monitor compliance with this requirement. None

Cause: Lack of procurement procedures in place to ensure that these requirements are met.

Effect: The City is not in compliance with the grant agreements entered into with the Department of Agriculture and the Department of Housing and Urban Development (HUD).

Auditors' Recommendation: We recommend that the City implement procedures to comply with the Federal Procurement and Suspension and Debarment requirements contained in OMB A-133.

UNITED STATES DEPARTMENT OF AGRICULTURE

School Breakfast Program
National School Lunch program
CFDA No: 10.553
CFDA No: 10.555

05-5: *Condition and Criteria:* The City is required to complete a process each year by selecting certain applications for free and reduced meals to verify the accuracy of the applications made. Guidance for this process is provided by the federal publication "Eligibility Guidance for School Meals Manual". The Manual requires that applications for verification must be taken from "error prone applications". The City was unable to substantiate that its selection criteria met the requirements as outlined in the Manual. None

Cause: Lack of procedures in place to properly document the verification requirements of the School Breakfast and Lunch Programs.

Effect: The City is not in compliance with the grant agreements entered into with the Department of Agriculture.

Auditors' Recommendation: We recommend that the City implement procedures to document its compliance with the verification requirements of the School Breakfast and Lunch Programs.

School Breakfast Program
CFDA No: 10.553

05-6: *Condition and Criteria:* The City's School District meets the federal and state requirements that allow the School to be considered a "Severe Need School District" which ultimately can allow a higher rate of reimbursement for these programs from the state. The Massachusetts Department of Education (DOE) allows for an additional state reimbursement if the actual average cost of breakfast served each month is in excess of the federal rate. This information is reported to the state monthly on Form FP-6B, "Report of Average Cost of Breakfasts". The School District was unable to provide documentation that supported the actual costs reported to the DOE and therefore the \$143,000 of state funds received are not supported. None

Cause: Lack of procedures in place to properly document the actual costs used to populate Form FP-6B that was filed monthly with the DOE.

Effect: The City is not in compliance with the grant agreements entered into with the Department of Agriculture.

Auditors' Recommendation: We recommend that the City implement procedures to document its compliance with the reporting requirements of the School Breakfast Program.

School Breakfast Program
National School Lunch program
CFDA No: 10.553
CFDA No: 10.555

05-7: *Condition and Criteria:* The City's School District is required under CFR Section 250.14(e) to conduct physical inventory counts of its school and warehouse inventories and to reconcile these counts at least annually to its perpetual inventory records. Although the School District informed us that they periodically count and reconcile their inventory; they were unable to provide any perpetual inventory records or any documentation of physical counts or any valuation of their inventories on hand. None

Cause: Lack of procedures in place to properly document the physical inventory requirements of the School Breakfast and Lunch Programs.

Effect: The City is not in compliance with the grant agreements entered into with the Department of Agriculture.

Auditors' Recommendation: We recommend that the City implement procedures to document its compliance with the physical inventory requirements of the School Breakfast and Lunch Programs.

UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Home Investment Partnership Program
CFDA No: 14.239

05-8: *Condition and Criteria:* Under the Home Investment Partnership Program the City is required to conduct long term monitoring of property standards, tenant income levels, and rental limitations as established by HUD. Our inquires and review of the City's documentation for these requirements indicated that this monitoring is not being conducted on a regularly scheduled basis. None

Cause: Lack of personnel in place to conduct the required monitoring.

Effect: The City is not in compliance with the grant agreements entered into with the Department of Housing and Urban Development (HUD).

Auditors' Recommendation: We recommend that the City implement procedures to comply with the HUD long term monitoring requirements.

Community Development Block Grants/Entitlement Grants
Home Investment Partnership Program
CFDA No: 14.218
CFDA No: 14.239

05-9: *Condition and Criteria:* While reviewing loan documentation files for various CDBG and Home programs we noted numerous instances where files were incomplete, inconsistently organized, and lacking certain required signatures and other documentation required by the programs. None

Cause: Lack of procedures in place to ensure that these documentation requirements are met.

Effect: The City is not in compliance with the grant agreements entered into with the Department of Housing and Urban Development (HUD).

Auditors' Recommendation: We recommend that the City implement procedures to comply with the documentation requirements outlined by the Federal programs and the City's own internal policies and procedures.

UNITED STATES DEPARTMENT OF LABOR

WIA Cluster
WIA Adult Program, WIA Youth Program, WIA Dislocated Workers
CFDA No.'s 17.258, 17.259, 17.260

05-10: *Condition and Criteria:* Lack of procedures in place to reconcile expenditure amounts by grant between the HCETC Office and the City Auditors Office. None

Cause: Personnel changes and lack of designated policies and procedures to the process of reconciling.

Effect: Unable to fully ascertain the integrity of the flow of information between the two Departments.

Auditors' Recommendation: We recommend the City implement procedures to reconcile amounts on a monthly basis prior to submitting cash requests.

UNITED STATES DEPARTMENT OF EDUCATION

Title I Grants to Local Educational Agencies
CFDA No: 84.010

05-11: *Condition and Criteria:* We were not provided with adequate supporting documentation for \$100,598 of workers' compensation costs charged to the Title I grant. Allowable cost principles contained in OMB A-133 require that all expenditures be adequately documented. None

Cause: Lack of procedures in place to ensure that adequate documentation is maintained to substantiate all costs charged to the grant.

Effect: The District is not in compliance with the grant agreements entered into with the Department of Education (the DOE).

Auditors' Recommendation: We recommend that the District implement procedures to comply with the allowable costs principals contained in OMB A-133.

Title I Grants to Local Educational Agencies
CFDA No: 84.010

05-12: *Condition and Criteria:* Several line-items on the Final Report had deficits in excess of the \$10,000 DOE limit that requires an amendment to be filed. As of the date of our audit report, no amendment had been filed to correct the deficit balances. None

Cause: The grant administrator was unaware of the \$10,000 threshold that requires and amendment to be filed for deficits in excess of \$10,000.

Effect: The City is not in compliance with the grant agreements entered into with the Department of Education.

Auditors' Recommendation: We recommend that the City implement procedures to comply with the Department of Education reporting requirements.

D. Prior Year Audit Findings and Questioned Costs

UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

**Questioned
Costs**

Community Development Block Grants/Entitlement Grants
CFDA No. 14.218

04-3: *Condition:* CDBG funding can only be used for Special Economic Development Projects that meet the criteria in CFR 570.203. Previous auditor's noted seven projects where the City was unable to provide documentation that the projects met the public benefit standard of job creation as required. \$450,949

Previous Auditors' Recommendation: Previous auditors recommended the City maintain documentation to show that projects meet specific HUD criteria.

Current Status: This situation has remained unchanged and has been repeated as current year finding #05-2.

Community Development Block Grants/Entitlement Grants
CFDA No. 14.218

04-4: *Condition:* Previous auditor's noted a situation where the salary of one individual was charged 100% to the CDBG Program, however the City was unable to provide documentation to support this particular allocation. None

Previous Auditors' Recommendation: Previous auditors recommended the City allocate payroll expenditures based on actual time worked on particular grants and that documentation be maintained to support any such allocation.

Current Status: The recommendation was adopted during fiscal year 2005. No similar findings were noted during the 2005 audit.

UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

UNITED STATES DEPARTMENT OF EDUCATION

UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES

Community Development Block Grants/Entitlement Grants
Title 1 Grants to Local Educational Agencies
Healthy Community Access Program
CFDA No. 14.218
CFDA No. 84.010
CFDA No. 93.252

04-5 *Condition:* Previous auditors noted that their review of the City's subrecipient monitoring revealed that one of the CDBG subrecipients had not completed its A-133 audit for fiscal year 2003 or 2004. In addition, their FY02 audit contained a disclaimer of opinion. Also the City did not request audit reports for its Title 1 or Community Access Program grant subrecipients. None

Previous Auditors' Recommendation: Previous auditors recommended that A-133 audit reports be obtained from all subrecipients. Any findings should be reviewed and appropriate actions should be taken and noted in the files.

Current Status: This situation has remained unchanged with regards to the CDBG program and the finding has been repeated as current year finding #05-3. No similar findings were noted for the Title 1 or the CAP Grants during the 2005 audit.

UNITED STATES DEPARTMENT OF AGRICULTURE

School Breakfast Program
National School Lunch Program
CFDA No. 10.553
CFDA No. 10.555

04-6 *Condition:* The City did not obtain appropriate suspension or debarment certification from applicable contractors for projects, which were funded with Federal School Lunch grant funds. None

Previous Auditors' Recommendation: Previous auditors recommended the City include the requirement of suspension and debarment certification in all applicable contacts.

Current Status: The City requires that all contracts contain language where the vendor certifies that they have not been suspended or debarred. However, we noted similar situations during our 2005 audits of this program and the Home Investment Partnership Program. This finding is being repeated as current year finding #05-4.

UNITED STATES DEPARTMENT OF EDUCATION

Title 1 Grants to Local Educational Agencies
CFDA No. 84.010

04-7 *Condition:* Form FR-1 (Final Financial Report) for the Title 1 grant was filed on December 1, 2004 rather than on October 31, 2004, as required. None

Previous Auditors' Recommendation: Previous auditors recommended that the City file all federal reports in a timely manor.

Current Status: The City has made timely filings for this grant during fiscal year 2005.

UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES

Healthy Community Access Program (CAP)
CFDA No. 93.252

04-8 *Condition:* The CAP grant had excessive amounts of cash on hand during the year. None

Previous Auditors' Recommendation: Previous auditors recommended that the City closely monitor the amount of federal cash on hand to ensure that the amounts are not excessive.

Current Status: The recommendation was adopted during fiscal year 2005. No similar findings were noted during the 2005 audit.

UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grants Section 108 Loan Guarantees
CFDA No. 14.248

04-9 *Condition:* The City had approximately \$4.7 million on deposit in a non-interest bearing account insured for \$100,000 from August 7, 2003 until disbursed on November 2, 2003, and therefore was not in compliance with HUD's cash management provisions. None

Previous Auditors' Recommendation: Prior auditors recommended that grant receipts be monitored to ensure compliance with HUD requirements, and that all funds are adequately safeguarded.

Current Status: The recommendation was adopted during fiscal year 2005. No similar findings were noted during the 2005 audit.

Community Development Block Grants Section 108 Loan Guarantees
CFDA No. 14.248

04-10 *Condition:* The City could not provide documentation that it had complied with the "Certification of Efforts to Obtain Other Financing" requirements of its Section 108 Loan Guarantees. None

Previous Auditors' Recommendation: Previous auditors recommended that the City maintain all grant-related documentation.

Current Status: The finding does not warrant further action as no new loans were initiated during fiscal year 2005. HUD has been notified of this matter and is not currently following up with the City on this finding.

UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES

Healthy Community Access Program (CAP)
CFDA No. 93.252

04-11 *Condition:* The City's level of effort requirements for the CAP grant were not being monitored during fiscal year 2004. Also the 15% cap for patient care and services was not monitored during the year.

None

Previous Auditors' Recommendation: Previous auditors recommended that all grant requirements be monitored during the year to ensure compliance with the requirements.

Current Status: The recommendation was adopted during fiscal year 2005. No similar findings were noted during the 2005 audit.