

CITY OF SPRINGFIELD, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2006

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REPORTS ON FEDERAL AWARD PROGRAMS
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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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 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 opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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 November 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.

November 17, 2006



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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

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, 2006. 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 #06-1 through #06-10 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, 2006.

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 cursive script that reads "Bowers + Sullivan".

May 2, 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, 2006, and have issued our report thereon dated November 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.

November 17, 2006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<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	\$ 4,855
Cooperative Forestry Assistance	10.664	7,545
<u>Passed through Massachusetts Department of Education:</u>		
Food Distribution	10.550	512,768
School Breakfast Program	10.553	2,042,299
National School Lunch Program	10.555	6,297,546
Summer Food Service Program for Children	10.559	163,811
TOTAL DEPARTMENT OF AGRICULTURE		<u>9,028,824</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
Community Development Block Grants/Entitlement Grants	14.218	4,225,013
Loan Payback	14.221	328,397
Emergency Shelter Grants Program	14.231	172,998
Supportive Housing Program	14.235	1,454,250
Shelter Plus Care	14.238	206,616
Home Investment Partnership Program	14.239	1,682,413
Housing Opportunities for Persons with AIDS	14.241	602,169
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	973
Community Development Block Grants Section 108 Loan Guarantees	14.248	1,226,998
Lead-Based Paint Hazard Control In Privately-Owned Housing	14.900	315,969
TOTAL HOUSING AND URBAN DEVELOPMENT		<u>10,215,796</u>
U.S. DEPARTMENT OF JUSTICE:		
Local Law Enforcement Block Grants Program	16.592	142,889
Gang Resistance Education and Training	16.737	2,984
<u>Passed through Massachusetts Executive Office of Public Safety:</u>		
Legal Assistance for Victims	16.524	19,318
Juvenile Justice and Delinquency Prevention Allocation to States	16.540	87,800
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	488,217
TOTAL JUSTICE		<u>741,208</u>
U. S. DEPARTMENT OF LABOR:		
<u>Passed through Senior Service America, Inc.</u>		
Senior Community Service Employment Program	17.235	493,402
<u>Passed through Massachusetts Community Corporation</u>		
Employment and Training Assistance - Dislocated Workers	17.246	226,997
Welfare to Work Grant	17.253	182,488
Workforce Investment Act	17.255	2,615
WIA Adult Program	17.258	1,555,596
WIA Youth Activities	17.259	1,392,827
WIA Dislocated Workers	17.260	3,540,136
TOTAL LABOR		<u>7,394,061</u>
ENVIRONMENTAL PROTECTION AGENCY:		
EMPACT Grant	66.500	13,628
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	186,715
TOTAL ENVIRONMENTAL PROTECTION		<u>200,343</u>

(continued)

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	\$ 139,525
WIA Dislocated Workers	14.235	722,994
WIA Youth Activities	17.259	170,170
WIA Dislocated Workers	17.260	59,125
Work Incentive/WIN Demonstration Program	93.029	<u>377,441</u>
Total		<u>\$ 1,469,255</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. No 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
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
Magnet Schools Assistance	84.165

8. The threshold for distinguishing Type A and B programs was \$2,028,187
9. The City of Springfield, Massachusetts, was not determined to be a low-risk auditee.

B. Findings – Financial Statement Audit**REPEAT OF A PRIOR 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 CONSIDERED TO BE A REPORTABLE CONDITION IN 2005

04-1 Reconcile Receivable Accounts to Collector Records

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 and the matters relating to tax liens and foreclosures were addressed during fiscal year 2006. No similar findings were noted in the 2006 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

06-1: *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

06-2: *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 2006. 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

06-3: *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

06-4: *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". We noted during our audit that the School District did not utilize the proper sampling methodology as required in the regulations. In addition the Manual requires that applications for verification must be taken from "error prone applications" and that a preliminary review of applications selected for verification be performed. The City was unable to substantiate that its verification 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

- 06-5: *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 \$217,000 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

- 06-6: *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

06-7: *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

06-8: *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

06-9: *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

06-10: *Condition and Criteria:* During our 2005 audit we were not provided with adequate supporting documentation for \$100,598 of workers' compensation costs charged to the Title I grant. Similarly in 2006, we were not provided adequate documentation of certain office and travel related costs amounting to less than \$10,000 charged to the Title 1 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.

D. Prior Year Audit Findings and Questioned Costs

**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

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

Current Status: This situation has remained unchanged and has been repeated as current year finding #06-1.

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

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

Current Status: This situation has remained unchanged and has been repeated as current year finding #06-2.

**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

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

Current Status: This situation has remained unchanged and has been repeated as current year finding #06-3.

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

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

Current Status: During our 2006 audit we noted that the School District utilized the same sampling methodology that was used in the prior year. The Federal regulations do not allow the use of the "focused sampling methodology" when the prior year non-response rate exceeds 20%. The District should have selected a greater number of applications for verification during 2006. In addition, the District was unable to demonstrate again in 2006 that "error prone" applications were selected for verification nor were they able to

demonstrate that any preliminary review of the applications selected for verification occurred as required. This situation has remained unchanged and has been repeated as current year finding #06-4.

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

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

Current Status: This situation has remained unchanged and has been repeated as current year finding #06-5.

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

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

Current Status: This situation has remained unchanged and has been repeated as current year finding #06-6.

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

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

Current Status: This situation has remained unchanged and has been repeated as current year finding #06-7.

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

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.

Current Status: This situation has remained unchanged and has been repeated as current year finding #06-8.

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

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

Current Status: This situation has remained unchanged and has been repeated as current year finding #06-9.

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

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

Current Status: Our testing of expenditures for this grant during the 2006 audit revealed similar documentation exceptions and the finding has been repeated as current year finding #06-10.

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

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

Current Status: The recommendation was adopted was adopted during fiscal year 2006. No similar findings were noted during the 2006 audit.