

*CITY OF EVERETT, MASSACHUSETTS*

*REPORTS ON FEDERAL AWARD PROGRAMS*

*FISCAL YEAR ENDED JUNE 30, 2001*

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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  
City of Everett, Massachusetts

We have audited the general purpose financial statements of the City of Everett, Massachusetts, as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated September 6, 2001, which was qualified for the noncapitalization of fixed assets. We conducted our audit in accordance with generally accepted auditing standards 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 Everett's general purpose 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 general purpose 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 no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Everett's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 general purpose 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 Everett in a separate letter dated September 6, 2001.

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

September 6, 2001







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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  
City of Everett, Massachusetts

### **Compliance**

We have audited the compliance of the City of Everett, 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, 2001. The City of Everett'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 Everett's management. Our responsibility is to express an opinion on the City of Everett's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 Everett'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 Everett's compliance with those requirements.

In our opinion, the City of Everett, 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, 2001.

### **Internal Control Over Compliance**

The management of the City of Everett, 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 Everett'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 Everett, 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 "Bovee + Sullivan". The signature is written in black ink and is positioned above the date.

September 6, 2001



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## INDEPENDENT AUDITOR'S REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Mayor  
City of Everett, Massachusetts

We have audited the general purpose financial statements of the City of Everett, Massachusetts, as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated September 6, 2001, which was qualified for the noncapitalization of fixed assets. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. 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 general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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

September 6, 2001



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through State Department</u>		
<u>of Education:</u>		
Food Distribution	10.550	\$ 110,944
School Breakfast Program	10.553	95,862
School Lunch Program	10.555	692,136 *
Special Milk Program	10.556	<u>5,468</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>904,410</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Passed through State Office for</u>		
<u>Communities and Development:</u>		
Small Cities Program	14.219	576,785 *
CDBG Program Income	14.218	12,890 *
CDBG Entitlement Grant	14.218	24,687 *
H.O.M.E. Program	14.239	<u>75,664</u>
Total Passed Through		<u>690,026</u>
<u>Direct Program:</u>		
UDAG Program Income	14.221	<u>102,601</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		<u>792,627</u>
U.S. DEPARTMENT OF JUSTICE:		
<u>Passed through State Department</u>		
<u>of Criminal Justice:</u>		
Law Enforcement Block Grant	16.592	50
Local Law Enforcement Block Grant	16.592	136,704
Community Policing Grant	16.710	10,245
Police Drug	16.unknown	<u>29,406</u>
TOTAL U.S. DEPARTMENT OF JUSTICE		<u>176,405</u>



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2001

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY:		
<u>Passed through Massachusetts Emergency</u>		
<u>Management Agency:</u>		
Local Emergency Grant	83.503	10,193
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through State Department</u>		
<u>of Education:</u>		
Title I Distribution	84.010	1,543,115 *
Sped 94-142 Allocation	84.027	471,397 *
Sped Professional Development	84.027	24,687 *
Occupational Education - Vocational Skills	84.048	98,153
Title VI	84.151	21,503
Emergency Immigration Act	84.162	33,705
Teacher Training Math/Science	84.164	51,836
Sped Early Childhood Allocation	84.173	35,463
Drug Free Schools - Distribution	84.186	22,071
Chapter 1 Capital Exps/Private	84.216	11,185
Chapter 1 Program Improvement - CII	84.218	5,750
Technical Literacy Challenge I	84.318	21,633
Reading Excellence Program	84.338	623,650 *
Class Size Reduction Program	84.340	185,922
TOTAL U.S. DEPARTMENT OF EDUCATION		3,150,070
TOTAL		\$ 5,033,706

\* Major program

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 Everett, 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 Everett, 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) School Lunch Program - Program expenditures represent federal reimbursement for meals provided during the year.

**A. Summary of Auditors' Results**

1. The auditors' report expresses a qualified opinion on the general purpose financial statements of the City of Everett, Massachusetts, for noncapitalization of fixed assets.
2. No reportable conditions relating to the audit of the general purpose 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 general purpose financial statements of the City of Everett, Massachusetts, were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs is 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 Everett, Massachusetts, expresses an unqualified opinion.
6. There were two audit findings relative to the major federal award programs for the City of Everett, Massachusetts.

The programs tested as major grants are:

<u>Program Title</u>	<u>CFDA Number</u>
School Lunch Program	10.555
Small Cities Program	14.219
CDBG Entitlement Grant	14.218
CDBG Program Income	14.218
H.O.M.E. Program	14.239
Title I Distribution	84.010
Sped 94-142 Allocation	84.027
Sped Professional Development	84.027
Reading Excellence Program	84.338

7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The City of Everett, Massachusetts, was not determined to be a low-risk auditee.

**B. Findings-Financial Statements Audit**

None

**C. Findings and Questioned Costs-Major Federal Award Program Audit****U.S. DEPARTMENT OF EDUCATION**

Sped 94-142 Allocation and Title 1  
CFDA No. 84.027 and CFDA No. 84.010

<b>Questioned Costs</b>
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01-1: *Condition and Criteria:* The City does not account for interest earned on advances of federal funds. Up to \$250 per year may be kept for administrative expenses. Interest exceeding \$250, earned by non-State, nonprofit entities on federal fund balances is required to be remitted to the Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852.

*Cause:* Lack of procedures in place to account for and report interest earned on advances of federal funds.

None

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

*Auditors' Recommendation:* We recommend the City's Grant Administrator implement procedures to properly account for interest earned on advances of federal funds and ensure compliance with grant agreements.

*Grantee Response:* The School Department will work with the Accountant and Treasurer to ensure interest is calculated properly on advances of federal funds.

School Lunch Program  
CFDA No. 10.555

01-2: *Condition and Criteria:* The City did not perform the necessary procedures to verify beginning and ending inventory and inventory usage during each month. Federal regulations require the City maintain an accurate inventory of donated foods.

*Cause:* Lack of procedures to accurately account for donated food commodities.

None

*Effect:* The City is not in compliance with federal requirements.

*Auditors' Recommendation:* We recommend the City maintain accurate and complete records of all donated food commodities received, used, and on hand. We also recommend that a physical inventory be taken and reconciled to these records.

*Grantee Response:* The outside vendor administering the School Lunch program will initiate a monthly inventory system.



**C. Findings and Questioned Costs-Major Federal Award Program Audit (continued)**

SPED 94-142 Allocation  
CFDA No. 84.027

01-3: *Condition and Criteria:* Form FR-1 (Final Financial Report) for the Sped 94-142 Allocation grant identified line items that were overspent in excess of the 10% limit.

*Cause:* The City is not in compliance with grant expenditure guidelines.

None

*Effect:* The City is not in compliance with federal requirements.

*Auditors' Recommendation:* We recommend the City to implement procedures to comply with grant expenditure guidelines.

*Grantee Response:* The School Department has initiated a procedure to see that all grant expenditures do not exceed line item allowances.

Summary Schedule of Prior Audit Findings**D. Summary Schedule of Prior Audit Findings**Finding 00-1: Sped 94-142 Allocation

*Condition:* Form FR-1 (Final Financial Report) for the Sped 94-142 Allocation grant was due on October 31, 1999, but was not submitted until November 1999.

*Recommendation:* It was recommended that procedures be implemented to comply with grant reporting requirements.

*Current Status:* Based on observations, inquiries of management and audit work performed during fiscal year 2001, we have concluded that management has implemented the necessary procedures to ensure compliance with grant reporting requirements.

Finding 00-2: Sped 94-142 Allocation

*Condition:* Form FR-1 (Final Financial Report) for the Sped 94-142 Allocation grant identified line items that were overspent in excess of the 10% limit.

*Recommendation:* It was recommended that procedures be implemented to comply with grant expenditure guidelines.

*Current Status:* Based on our review of the Form FR-1 filed October 31, 2000 we have concluded that the travel line was over-expended by approximately 26%, which indicates that management has not implemented procedures to ensure compliance with grant expenditure guidelines. Accordingly, this issue is included as a current finding on page 9 of this report.