

*CITY OF EVERETT, MASSACHUSETTS*

*REPORTS ON FEDERAL AWARD PROGRAMS*

*FISCAL YEAR ENDED JUNE 30, 2003*

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**TABLE OF CONTENTS**

	<b>Page</b>
Independent Auditors' report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with <u>Government Auditing Standards</u>	1
Independent Auditors' report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133	2
Independent Auditors' report on schedule of expenditures of federal awards	4
Schedule of expenditures of federal awards	5
Notes to schedule of expenditures of federal awards	7
Schedule of findings and questioned costs	8
Summary schedule of prior audit findings	9



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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**

 RAN·ONE | member

To the Honorable Mayor  
City of Everett, Massachusetts

We have audited the basic financial statements of the City of Everett, Massachusetts, as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated December 22, 2003, which expresses an unqualified opinion. 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 Everett's basic 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 basic 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 basic 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 Everett in a separate letter dated December 22, 2003.

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.

December 22, 2003



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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, 2003. 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 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 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, 2003.

### **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 "Powers + Sullivan".

December 22, 2003



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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 basic financial statements of the City of Everett, Massachusetts, as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated December 22, 2003, which expresses an unqualified opinion. Our audit was performed for the purpose of forming an opinion on the basic 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 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 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.

December 22, 2003

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through State Department of Education:</u>		
Food Distribution	10.550	\$ 65,905
School Breakfast Program	10.553	165,675
School Lunch Program	10.555	702,781
Special Milk Program	10.556	<u>4,231</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>938,592</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Passed through State Office for Communities and Development:</u>		
CDBG Program Income	14.218	615
CDBG Entitlement Grant	14.218	57,615
Small Cities Program	14.228	1,128,881
H.O.M.E. Program	14.239	<u>54,864</u>
Total Passed Through		<u>1,241,975</u>
<u>Direct Program:</u>		
UDAG Program Income	14.221	<u>66,602</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		<u>1,308,577</u>
U.S. DEPARTMENT OF JUSTICE:		
<u>Passed through State Department of Criminal Justice:</u>		
Student Awareness of Fire Education Grant	16.523	1,835
Narcotics Control Assistance	16.579	17,784
Community Policing Grant	16.592	19,685
Local Law Enforcement Block Grant	16.592	196,820
Police Drug	16.unknown	<u>13,175</u>
Total Passed Through		<u>249,299</u>
<u>Direct Program:</u>		
Police Marine Division Grant	16.unknown	<u>141,070</u>
TOTAL U.S. DEPARTMENT OF JUSTICE		<u>390,369</u>
U.S. DEPARTMENT OF TRANSPORTATION:		
<u>Passed through Highway Safety Bureau:</u>		
State and Community Highway Safety	20.600	15,034
Safety Incentive Grants for Use of Seatbelts	20.600	<u>1,594</u>
TOTAL TRANSPORTATION		<u>16,628</u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
NATIONAL ENDOWMENT FOR THE HUMANITIES:		
<u>Passed through State Office of the</u>		
<u>Board of Library Commissioners:</u>		
Library Services and Technology	45.310	19,000
FEDERAL EMERGENCY MANAGEMENT AGENCY:		
<u>Passed through Massachusetts Emergency</u>		
<u>Management Agency:</u>		
Fire Department Assistance Grant	83.unknown	84,326
Local Emergency Grant	83.unknown	20,191
FEMA Snow Removal	83.544	46,312
Emergency Management Assistance	83.552	19,312
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY		<u>170,141</u>
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through State Department</u>		
<u>of Education:</u>		
Adult Basic Education Distribution	84.002	142,959
Title I Distribution	84.010	1,347,008
Mental Health Support	84.027	4,333
Sped 94-142 Allocation	84.027	893,374
Sped Autistic Programs	84.027	68,996
Sped Program Improvement	84.027	69,465
Title V (Formerly Title VI)	84.151	49,921
Emergency Immigration Act	84.162	6,434
Teacher Training Math and Science	84.164	18,365
Sped Early Childhood Allocation	84.173	28,446
Drug Free Schools - Distribution	84.186	36,248
Chapter 1 Program Improvement	84.218	527
Innovative Education Program	84.298	36,489
Enhanced Education through Technology	84.318	26,732
Comprehensive School Reform	84.332	32,132
Reading Excellence Program	84.338	21,680
Class Size Reduction Program	84.340	7,032
LEP Support	84.365	47,768
Teacher Quality	84.367	326,427
State Assessment Program	84.369	3,447
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>3,167,783</u>
TOTAL		<u>\$ 6,011,090</u>

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 an unqualified opinion on the basic financial statements of the City of Everett, Massachusetts.
2. No reportable conditions relating to the audit of the basic 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 basic 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
Title 1 Distribution	84.010
Mental Health Support	84.027
Sped 94-142 Allocation	84.027
Sped Autistic Programs	84.027
Sped Program Improvement	84.027

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**

None

**D. Summary Schedule of Prior Audit Findings**

Finding 01-1: Sped 94-142 Allocation and Title I Distribution

*Condition:* 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.

*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.

*Current Status:* Based on observations, inquiries of management and audit work performed, we have concluded that management has not implemented the necessary procedures to ensure compliance with grant reporting requirements.

*Planned Corrective Action:* The School Department will work with the Auditor's Office to implement a procedure to account for earned interest and comply with Federal mandates.

Finding 01-2: School Lunch Program

*Condition:* The School Lunch Program (the Program) did not maintain inventory records for donated food commodities documenting beginning inventory, receipts, usage/distribution, losses and ending inventory for the entire audit period. Also, the Program did not perform a physical inventory and reconcile the physical inventory to the perpetual inventory records.

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

*Current Status:* Based on observations, inquiries of management and audit work performed, we have concluded that management has implemented a perpetual inventory system. Management has not implemented procedures requiring an annual physical inventory to be performed and reconciled with the perpetual inventory system.

*Planned Corrective Action:* An annual physical inventory count will be performed and reconciled to the Program's perpetual inventory records. Both perpetual inventory records and physical inventory counts will be on file in the Program's office located at Everett High School and will be made available to City Officials.