

*CITY OF EVERETT, MASSACHUSETTS*

*REPORTS ON FEDERAL AWARD PROGRAMS*

*FISCAL YEAR ENDED JUNE 30, 2014*

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REPORTS ON FEDERAL AWARD PROGRAMS  
YEAR ENDED JUNE 30, 2014

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Independent Auditor's Report**

To the Honorable City Council  
City of Everett, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Everett, Massachusetts, as of and for the year ended June 30, 2014 (except for the Everett Contributory Retirement System which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the City of Everett, Massachusetts' basic financial statements, and have issued our report thereon dated January 29, 2015.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Everett, Massachusetts' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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



January 29, 2015



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

**Independent Auditor's Report**

To the Honorable City Council  
City of Everett, Massachusetts

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

We have audited the City of Everett, Massachusetts' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Everett, Massachusetts' major federal programs for the year ended June 30, 2014. The City of Everett, Massachusetts' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City of Everett, Massachusetts' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB 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, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Everett, Massachusetts' compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City of Everett, Massachusetts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

The City of Everett, Massachusetts' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Everett, Massachusetts' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

This report is replacing a previously issued report due to the omission of the Homeland Security Grant Program - CFDA# 97.067 which has been reported as a major program.

## Report on Internal Control Over Compliance

Management of the City of Everett, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Everett, Massachusetts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Everett, Massachusetts' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Everett, Massachusetts as of and for the year ended June 30, 2014 (except for the Everett Contributory Retirement System which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the City of Everett, Massachusetts' basic financial statements. We issued our report thereon dated January 29, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



April 28, 2015, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is January 29, 2015.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through the Massachusetts Department of Elementary and Secondary Education:</u>		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	\$ 174,260
Cash Assistance:		
School Breakfast Program	10.553	817,480
National School Lunch Program	10.555	2,317,368
Fresh Fruit and Vegetable Program	10.582	<u>36,310</u>
TOTAL AGRICULTURE		<u>3,345,418</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Direct Programs:</u>		
HOME Investment Partnerships Program	14.239	34,688
<u>Passed through State Office for Communities and Development:</u>		
Community Development Block Grants - State's Program	14.228	864,626
Brownfields Economic Development Initiative	14.246	<u>151,786</u>
TOTAL HOUSING AND URBAN DEVELOPMENT		<u>1,051,100</u>
U.S. DEPARTMENT OF JUSTICE:		
<u>Direct Programs:</u>		
Bulletproof Vest Partnership Program	16.607	7,720
Public Safety Partnerships and Community Policing Grants	16.710	273,290
Drug Prevention Program	16.728	34,549
<u>Passed through the Massachusetts Executive Office of Public Safety</u>		
Edward Byrne Memorial Justice Assistance Grant	16.738	27,844
Edward Byrne Memorial Competitive Grant Program	16.751	<u>2,695</u>
TOTAL JUSTICE		<u>346,098</u>
U.S. DEPARTMENT OF TRANSPORTATION:		
<u>Passed through the Massachusetts Executive Office of Public Safety and Security:</u>		
National Highway Safety Program	20.207	<u>9,336</u>

(continued)



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF VETERAN AFFAIRS:		
<u>Passed through the State Office of Disabilities and Community Services:</u>		
Vocational Rehabilitation for Disabled Veterans	64.116	960
U.S. DEPARTMENT OF EDUCATION:		
<u>Direct Program:</u>		
Fund for the Improvement of Education - Counseling Grants	84.215E	268,550
Arts in Education Model Development and Dissemination Grant Program	84.351D	252,749
<u>Passed through the Massachusetts Department of Elementary and Secondary Education:</u>		
Title I Grants to Local Educational Agencies	84.010	1,601,099
Special Education Grants to States	84.027	2,056,762
21st Century Community Learning Centers	84.287	517,298
English Language Acquisition Grants	84.365	150,249
Mathematics and Science Programs	84.366	88,827
Improving Teacher Quality State Grants	84.367	254,911
ARRA - Race to the Top, Recovery Act	84.395	294,180
<u>Passed through the Massachusetts Department of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	52,437
TOTAL EDUCATION		5,537,062
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
<u>Passed through the Massachusetts Department of Public Health:</u>		
Community Transformation Grants	93.531	30,000
U.S. DEPARTMENT OF HOMELAND SECURITY:		
<u>Passed through the State Emergency Management Agency:</u>		
Public Assistance Grants	97.036	118,276
<u>Passed through the State Office of Public Safety:</u>		
Emergency Management Performance Grant	97.042	14,030
Assistance to Firefighters Grant	97.044	270,000
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	569,790
<u>Passed through the City of Boston, Massachusetts:</u>		
Homeland Security Grant Program	97.067	504,746
TOTAL HOMELAND SECURITY		1,476,842
TOTAL		\$ 11,796,816

See notes to schedule of expenditures of federal awards.

(concluded)

**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 modified accrual basis of accounting. Accordingly, expenditures are recognized when the liability is incurred.
- (b) Cash Assistance – School Breakfast and Lunch Program - Program expenditures represent federal reimbursement for meals provided during the year.
- (c) Non-Cash Assistance (Commodities) – School Lunch Program - Program expenditures represent the value of donated foods received during the year.
- (d) Homeland Security Grant Program – Program expenditures represent financial and non-financial federal assistance passed through from the City of Boston.
- (e) Public Assistance Grants – Program expenditures represent federal reimbursement for eligible disaster assistance costs.

**Note 3 – 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>
<b>Child Nutrition Cluster</b>	
School Breakfast Program	10.553
National School Lunch Program	10.555
<b>Special Education Cluster</b>	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173

**A. Summary of Auditor's Results**

1. The independent auditor's report expresses an unmodified opinion on the financial statements of the City of Everett, Massachusetts.
2. No significant deficiencies relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City of Everett, Massachusetts' of Everett, Massachusetts, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in the Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.
5. The independent auditor's report on compliance for the major federal award programs for the City of Everett, Massachusetts, expresses an unmodified opinion.
6. There is one audit finding relative to the major federal award programs for the City of Everett, Massachusetts that is required to be reported in accordance with Section 520(a) of OMB A-133 which is described in Note C of this schedule.
7. The following programs were tested as major programs:

<u>Program Title</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Title I Grants to Local Educational Agencies	84.010
21 <sup>st</sup> Century Community Learning	84.287
Homeland Security Grant Program	97.067
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. 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 Programs**

2014-001: U.S. DEPARTMENT OF HOMELAND SECURITY  
Passed through the City of Boston, Massachusetts

Homeland Security Grant Program	97.067
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*Condition and Criteria:* The City failed to identify and report \$504,746 in federal financial and non-financial assistance received from another community during 2014 on the original Schedule of Expenditures of Federal Awards (SEFA) that was previously issued. The receipt of federally funded equipment, materials or supplies that are paid for by another agency are considered to be non-financial assistance that is required to be reported on the SEFA.

*Cause:* The City's system of internal controls requires departments to report the receipt and expenditure of all federal awards, including non-financial assistance, to the Auditor's Office to ensure that they are reported on the SEFA. In this instance, a department failed to notify the Auditor's Office of the receipt of non-financial federal assistance. This transaction was not identified through the City's general ledger because there was no cash disbursement associated with the transaction.

*Effect:* The City failed to identify and report the non-financial federal assistance received under the Homeland Security Grant Program.

*Questioned Costs:* None

*Auditor's Recommendation:* We recommend that the City strengthen controls over the preparation of the SEFA to ensure that all non-financial federal assistance is identified through a review of the City's general ledger. This can be accomplished through additional training with departments to ensure that all non-financial assistance is reported to the City Auditor's office on a timely basis.

*Management's Response:* The City will implement procedures to ensure that all financial and non-financial federal assistance is properly accounted for and reported on the SEFA.

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

2013-002: U.S. DEPARTMENT OF EDUCATION  
Passed through the Massachusetts Department  
of Elementary and Secondary Education

	Federal CFDA <u>Number</u>	Questioned <u>Costs</u>
Special Education Grants to States	84.027	None
21 <sup>st</sup> Century Community Learning Centers	84.287	None
ARRA – Race to the Top, Recovery Act	84.395	None

*Condition and Criteria:* The school department records grant activity in spreadsheets that are utilized for grant reporting; however the spreadsheets are not reconciled to the general ledger balances and significant discrepancies were noted at the time of our audit.

*Auditor's Recommendation:* Procedures should be implemented to ensure that amounts recorded on the general ledger are reconciled to supporting schedules that are used to prepare grant documents. The grant documents are required to be submitted to the grantor agency to fulfil the City of Everett, Massachusetts' reporting requirements.

*Status:* The corrective action was taken.