

CITY OF EVERETT, MASSACHUSETTS

Independent Auditors' Reports Pursuant
to Governmental Auditing Standards
and The Single Audit Act Amendments of 1996

For the Year Ended June 30, 2006

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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

To the Mayor and City Council
City of Everett, Massachusetts

We have audited the financial statements of the governmental 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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 16, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-1 and 06-2.

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. Our consideration of the internal control over financial reporting would not necessarily

disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

In January 2007, a report was issued regarding a forensic investigation into the City's procurement procedures, which indicated a number of internal control weaknesses, as well as potential bid and contract violations. The forensic investigation report should be read in conjunction with this report.

We noted other matters involving the internal control over financial reporting which we have reported to the management of the City in a separate letter dated November 16, 2006.

This report is intended solely for the information and use of management, others within the organization, the Mayor and City Council 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.



Andover, Massachusetts
November 16, 2006



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

To the Mayor and City Council
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 year ended June 30, 2006. The City'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 agreements applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City'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'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 of the City's compliance with those requirements.

In January 2005, the Massachusetts State Auditor's Office issued a report on the Everett School Department, which indicated a number of internal control weaknesses, as well as potential questioned costs. The State Auditor's report should be read in conjunction with this report.

As described in items 06-3 through 06-7 in the accompanying schedule of findings and questioned costs, the City did not comply with various requirements, which are applicable to the Federal Homeland Security Assistance grant. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the City of Everett, Massachusetts did not comply in all material respects, with the requirements applicable to the Federal Homeland Security grant.

As described in item 06-8, the City did not comply with level of effort requirements, which are applicable to the Improving Teacher Quality grant. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to its National School Lunch Program, Improving Teacher Quality, and SPED 94-142 major federal programs of the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City'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 the 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 reportable 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 caused by error or fraud 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2006, and have issued our report thereon dated November 16, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's 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, others within the organization, the Mayor and City Council 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.

Melanson Heald + Company P.C.

Andover, Massachusetts
March 14, 2007

CITY OF EVERETT, MASSACHUSETTS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

	Federal Catalogue Number	Federal Expenditures
<u>Department of Agriculture</u>		
Passed Through Massachusetts Department of Education		
School Lunch - Food Distribution	10.550	\$ 146,319
School Lunch - School Breakfast Program	10.553	220,023
School Lunch - School Lunch Program	10.555	780,718
School Lunch - Special Milk Program	10.556	4,864
Total Department of Agriculture		<u>1,151,924</u>
<u>Department of Education</u>		
Passed Through Massachusetts Department of Education		
Title I	84.010	1,381,445
SPED - 94-142	84.027	1,409,532
Title VI Material Support	84.151	43,709
SPED - Early Childhood	84.173	26,007
Enhanced Education through Technology	84.318	37,616
Comprehensive School Reform	84.332	34,033
LEP Support	84.365	143,971
Teacher Quality	84.367	339,125
Total Department of Education		<u>3,415,438</u>
<u>Department of Housing and Urban Development</u>		
UDAG	14.221	237,141
Small Cities	14.228	146,966
H.O.M.E. Program	14.239	50,973
Total Department of Housing and Urban Development		<u>435,080</u>
<u>Department of Health and Human Services</u>		
Emergency Services	93.127	37,029
Total Department of Health and Human Services		<u>37,029</u>
<u>Department of Justice</u>		
Police Drug Funds	16.585	57,108
Community Oriented Policing Services	16.592	40,527
Governor's Alliance Against Drugs	16.728	37,145
Police Marine Division	97.005	100,000
Total Department of Justice		<u>234,780</u>
<u>Federal Emergency Management Agency</u>		
Assistance to Firefighters	83.554	108,561
Total Federal Emergency Management Agency		<u>108,561</u>
<u>Department of Homeland Security</u>		
Homeland Security	97.067	287,984
Total Department of Homeland Security		<u>287,984</u>
Total Federal Assistance		<u>\$ 5,670,796</u>

This schedule was prepared on the modified accrual basis of accounting.

See Independent Auditors' Report on Schedule of Expenditures of Federal Awards.

CITY OF EVERETT, MASSACHUSETTS

Schedule Of Findings

For The Year Ended June 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?

☒ yes ☐ no

- Reportable condition(s) identified that are not considered to be material weakness(es)? reported

☐ yes ☒ none

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

☐ yes ☒ no

- Reportable condition(s) identified that are not considered to be material weakness(es)? reported

☐ yes ☒ none

Types of auditor's report issued on compliance for major programs:

Unqualified for all major programs except Federal Homeland Security, which was Adverse and Improving Teacher Quality, which was Qualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☒ yes ☐ no

Identification of major programs:

CFDA Number(s)
10.550/10.553/10.555/10.556
84.027
84.367
97.067

Name of Federal Program or Cluster

National School Lunch Cluster
SPED 94-142
Improving Teacher Quality
Federal Homeland Security

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding

Finding/Noncompliance

06-1

Improve Monthly Reconciliations and Accounting Training (Material Weakness)

The City does not have a formal system of general ledger account reconciliations in place. Monthly reconciliations are necessary to prove the accuracy of general ledger records, as well as to provide a method of checks and balances between the financial departments. As a result, there is an increased risk that the City's accounting records could contain errors.

Recommendation:

We recommend the City establish formal procedures to timely reconcile all critical general ledger balances on a regular monthly basis. This will provide additional assurance of the accuracy of the City's internal financial reports, including monthly departmental budget reports, the balance sheet used for free cash certification, and the annual Schedule A report.

We further recommend that the City provide the accounting staff with general, as well as governmental (UMAS) accounting training. The additional training will likely result in fewer posting errors, and help ensure that any errors that do occur, are identified and corrected in a timely manner.

We also recommend that the City maintain general ledger activity schedules of property and excise taxes, water and sewer, betterments, and other significant receivables on a regular basis. Activity schedules will simplify the reconciliation of receivable accounts between the general ledger and detail records of the Tax Collector, and other departments.

06-2

Revise Chart of Accounts and Maintain Activity Schedule (Material Weakness)

The City posts all non-general fund activity to fund balance accounts, rather than posting to revenue and expenditure accounts. As a result, monitoring current year activity is not possible.

Recommendation:

We recommend the City revise the chart of accounts to include revenue and expenditure accounts for all funds. We further recommend the City discontinue the practice of posting directly

Finding #

Finding/Noncompliance

to fund balance accounts. Implementation of this recommendation will allow the City to identify current year activity, simplify reconciliations with departments, and prepare the Schedule A.

Prior to implementing a revised chart of accounts, we recommend that the City continue to maintain detailed general ledger activity schedules for all special revenue funds, capital project funds, trust funds, and agency funds. Activity schedules simplify the reconciliation of accounts between the general ledger and detail records of the responsible departments.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Cost</u>
06-3	Federal Homeland Security (97.067)	<p><u>Comply with Subrecipient Regulations</u></p> <p>The City did not comply with federal sub-recipient monitoring regulations relative to the pass-through of grant funds to the Metropolitan Mayors Coalition Regional Emergency Work Group (MMCREWG). Specifically, the City, in its capacity as the grant recipient, was required to: a) Identify (in writing) to the subrecipients the Federal Award information and applicable compliance requirements; b) Monitor the subrecipient's use of the grant award through site visits or other means to provide reasonable assurance that the sub-recipient administers the grant award in compliance with federal requirements; c) Ensure that required audits are completed within nine months of the end of the subrecipient's audit period.</p> <p><u>Recommendation:</u> We recommend the City develop policies and procedures designed to ensure full compliance with federal subrecipient monitoring regulations.</p>	undetermined
06-4	Federal Homeland Security (97.067)	<p><u>Improve Record Retention</u></p> <p>The City did not retain a copy of the sole request for reimbursement related to the Federal Homeland Security grant, as required by OMB Circular A-133.</p> <p><u>Recommendation:</u> We recommend the City develop policies and procedures designed to ensure full compliance with federal record keeping requirements.</p>	undetermined

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Cost</u>
06-5	Federal Homeland Security (97.067)	<p><u>Comply with Equipment Management</u></p> <p>The City did not maintain records documenting the purchase of equipment, which were funded by the Federal Homeland Security grant, as required by OMB Circular A-133. In addition, we noted the City does not have a policy to address the disposition of capital assets, which were purchased through federal grant funds.</p> <p><u>Recommendation:</u> We recommend the City develop policies and procedures designed to ensure full compliance with federal equipment maintenance requirements.</p>	undetermined
06-6	Federal Homeland Security (97.067)	<p><u>Comply with the Period of Availability</u></p> <p>As prescribed by the grant agreement, the City was required to liquidate all obligations incurred under the grant no later than 90 days after the end of the grant period. We noted that the City incurred expenditures totaling \$ 35,023, from the Federal Homeland Security Grant after the 90-day window had expired.</p> <p><u>Recommendation:</u> We recommend the City develop policies and procedures designed to ensure full compliance with the period of availability expenditure requirement.</p>	\$ 35,023
06-7	Federal Homeland Security (97.067)	<p><u>Comply with the Buy American Act</u></p> <p>The grant agreement required that funds received under the federal Homeland Security Grant must be expended consistent with the applicable provisions of the Buy American Act. The act basically requires that articles, materials, or supplies acquired for public use within the US be produced in the US.</p>	undetermined

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Cost</u>
		<p>The City could not provide evidence of compliance with the Buy American act, as required.</p> <p><u>Recommendation:</u> We recommend the City develop policies and procedures designed to ensure full compliance with the Buy American Act.</p>	
06-8	Improving Teacher Quality (84.367)	<p><u>Adhere to Grant Requirements as Stipulated in the Grant Application</u></p> <p>The City did not comply with the budget narrative included in the grant application, which stated six highly-qualified teachers would be hired to reduce class size. Of the six teachers charged to this grant, five were existing employees prior to the start date of the grant.</p> <p><u>Recommendation:</u> We recommend that the City ensure that stated objectives included in the grant application be fulfilled, or the City should submit a revised application with new objectives should the original objectives need adjustment. We further recommend that the City Auditor's Office verify that the grant expenditures are in accordance with the grant agreement prior to charging expenditures to the grant.</p>	\$ 261,623

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

FINDINGS AND QUESTIONED COSTS FOR FEDERAL PROGRAMS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Cost</u>
05-4	97.067	<u>Comply with Subrecipient Regulations</u> <u>Current Year Status:</u> This issue was not resolved and has been repeated as current year finding 06-3.	undetermined
05-5	10.555	<u>Improve Verification Process</u> <u>Prior Year Issue:</u> During our testing, we noted that five out of the nineteen free and reduced school meals applications selected for testing, were not signed by the determining official, as required by the grant. In addition, we noted that three of the selections requiring income verification did not respond; however, they continued to receive benefits. <u>Prior Year Recommendation:</u> We recommended a written procedure be implemented for verifying the current free and reduced price eligibility of households. <u>Current Year Status:</u> This issue was satisfactorily resolved.	undetermined