

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, 2010

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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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 22, 2011. 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 as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

*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

*Additional Offices:*

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

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. We consider the deficiencies described as item 10-1 in the accompanying schedule of findings and questioned costs 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated March 22, 2011.

This report is intended solely for the information and use of management, Mayor and City Council, others within the entity, 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, Heath + Company P.C.*

Andover, Massachusetts  
March 22, 2011





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REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON  
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, 2010. 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 grant 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 our opinion, the City complied, in all material respects, with the 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, 2010.

### Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program 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, 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's 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 10-02. *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.

### Schedule of Expenditure 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 of Everett as of and for the year ended June 30, 2010, and have issued our report thereon dated March 22, 2011. Our audit was performed for the purpose of forming our 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, Mayor and City Council, others within the entity, 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, Heath + Company P.C.*

Andover, Massachusetts  
April 29, 2011

CITY OF EVERETT, MASSACHUSETTS  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

	Federal Catalogue Number	Federal Expenditures
<u>Department of Agriculture</u>		
Passed Through Massachusetts Department of Elementary and Secondary Education		
School Lunch - Food Distribution	10.550	\$ 244,986
School Lunch - School Breakfast Program	10.553	421,876
School Lunch - School Lunch Program	10.555	<u>1,474,151</u>
Total Department of Agriculture		2,141,013
<u>Department of Education</u>		
Passed Through Massachusetts Department of Elementary and Secondary Education		
Title I	84.010	1,423,443
SPED - 94-142	84.027	1,111,265
SPED - Early Childhood	84.173	31,671
Carole M. White Physical Education Program	84.215	389,148
English Literacy & Civics	84.257	106,443
21st Century	84.287	196,452
Enhanced Education through Technology	84.318	45,304
Reading First Grant	84.357	30,919
LEP Support	84.365	108,866
Teacher Quality	84.367	342,740
ARRA Literacy	84.386	33,700
Title I - ARRA	84.389	371,229
SPED - ARRA	84.391	950,778
State Fiscal Stabilization Fund (SFSF) - Education State Grant	84.394	<u>3,720,429</u>
Total Department of Education		8,862,387
<u>Department of Housing and Urban Development</u>		
UDAG	14.221	74,459
CDBG Small Cities	14.228	921,606
H.O.M.E. Program	14.239	70,267
Brownfield Economic Development Initiative	14.246	<u>151,780</u>
Total Department of Housing and Urban Development		1,218,112
<u>Department of Health and Human Services</u>		
Emergency Services	93.127	<u>59,454</u>
Total Department of Health and Human Services		59,454
<u>Department of Justice</u>		
Police Drug Funds	16.585	54,841
Local Law Enforcement Block Grant	16.592	31,730
Governor's Alliance Against Drugs	16.728	28,839
Edward Byrne Memorial Justice Assistance Grant	16.738	<u>33,044</u>
Total Department of Justice		148,454
<u>Environmental Protection Agency</u>		
Brownfields Assessment and Clean up Cooperative Agreements	66.818	<u>41,482</u>
Total Environmental Protection Agency		41,482
<u>Department of Energy</u>		
Energy Efficiency & Conservation Block Grant	81.128	<u>149,286</u>
Total Department of Energy		<u>149,286</u>
Total Federal Assistance		<u>\$ 12,620,188</u>

This schedule was prepared on the modified accrual basis of accounting.  
See Independent Auditors' Report on Schedule of Expenditures of Federal Awards.  
State identifying numbers were not available for the pass-through grants listed above.



CITY OF EVERETT, MASSACHUSETTS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? ☒ yes ☐ no
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiency identified that are not considered to be a material weakness? ☒ yes ☐ none reported

Type of auditors' report issued on compliance for major programs: Unqualified

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.550/10.553/10.555	National School Lunch Program
14.228	CDBG Small Cities
84.010/84.389	Title I Cluster
84.027/84.173/84.391	SPED Cluster with ARRA
84.215	Carole M White Physical Education Program
84.394	State Fiscal Stabilization Fund (SFSF)

Dollar threshold used to distinguish between type A and type B programs: \$ 378,606

Auditee qualified as low-risk auditee? ☐ yes ☒ no

## SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Finding #</u>	<u>Finding/Noncompliance</u>
10-1	<p><u>Maintain Sufficient Relevant Evidence of Adjustments (Material Weakness)</u></p> <p>During our engagement, we selected a \$ 1.3m water/sewer abatement for testing. As part of our testing procedures, we requested evidence that the transaction was approved by the City's Board of Water and Sewer Commissioners in accordance with normal City practice, however, to date, have not been provided with documented approval by the Commission. Because of the magnitude of the transaction, we inquired further as to the reason(s) for the adjustment. In response to our inquiry, the City provided substantial paperwork including billing history, email correspondence, and certain other draft correspondence regarding the transaction. However, based on the paperwork provided, we are unable to determine that this transaction was either abated in accordance with the City's practice or otherwise approved for adjustment.</p> <p>We recommend that the City openly assess its risk associated with this transaction. At a minimum, the City must maintain sufficient and relevant evidence to support this as well as all adjustment to the financial systems.</p>

## SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
10-2	National School Lunch (10.550) (10.553) (10.555)	<p><u>Improve Cash Collection Process (Significant Deficiency)</u></p> <p><u>Criteria:</u> The City is required to maintain an internal control process designed to provide reasonable assurance that transactions are properly recorded and accounted for.</p> <p><u>Condition:</u> Receipts collected for meal tickets at school (except for Everett High School) classrooms are placed in the cash register, but are not rung into the cash registers at each school, resulting in the cash on hand in the registers not equal to the register tapes.</p> <p><u>Effect:</u> The condition results in the City being at risk for loss due to error or irregularity since there is no proof that the sales rung into a cash register agrees with the cash on hand.</p>	Undetermined

(continued)

(continued)

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
		<u>Recommendation:</u> We recommend the City develop policies and procedures for handling cash collected in the classrooms and record such sales through the registers.	
		<u>Corrective Action Plan:</u> The schools will develop policies and implement procedures related to receipts collected for meals tickets. Specifically, develop a procedure to ensure receipts are rung into the cash registers, so that cash on hand equals the register tapes. Cash reconciliations must be an integral part of financial reporting and must be performed timely and accurately.	

#### SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
09-1	National School Lunch (10.550) (10.553) (10.555)	<u>Improve Cash Collection Process</u>  <u>Prior Year Recommendation:</u> We recommended the City implement policies and procedures for handling cash collected in the classrooms and record such sales through the registers.  <u>Current Year Status:</u> This issue was not satisfactorily resolved and is repeated as current year finding 10-2.	Undetermined