

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, 2011

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 107
Andover, MA 01810-1096
(978) 749-0005 • Fax (978) 749-0006
www.melansonheath.com

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 3, 2012. 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.

Additional Offices:

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

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. We consider the deficiencies described as items 11-1 and 11-2 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 April 3, 2012.

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 3, 2012



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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, 2011. 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.

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 11-3. *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, 2011, and have issued our report thereon dated April 3, 2012. 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 3, 2012

CITY OF EVERETT, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program Name	Federal CFDA Number	Federal Expenditures
<u>Department of Agriculture</u>		
Passed Through Massachusetts Department of Elementary and Secondary Education		
School Lunch - Food Distribution	10.550	\$ 38,683
School Lunch - School Breakfast Program	10.553	645,562
School Lunch - School Lunch Program	10.555	<u>1,814,650</u>
Total Department of Agriculture		2,498,895
<u>Department of Education</u>		
Passed Through Massachusetts Department of Elementary and Secondary Education		
Title I	84.010	1,527,364
SPED - 94-142	84.027	2,161,212
SPED - Early Childhood	84.173	100,274
Carole M. White Physical Education Program	84.215	161,254
English Literacy & Civics	84.257	80,522
21st Century	84.287	206,401
Enhanced Education through Technology	84.318	23,404
Reading First Grant	84.357	16,973
LEP Support	84.365	99,744
Mathematics and Science Partnership Grant	84.366	52,846
Improving Teacher Quality	84.367	336,677
ARRA Literacy	84.386	3,286
Title I - ARRA	84.389	412,319
SPED - ARRA	84.391	626,404
State Fiscal Stabilization Fund (SFSF) - Education State Grant	84.394	171,345
Ed Jobs	84.410	<u>481,469</u>
Total Department of Education		6,461,494
<u>Department of Housing and Urban Development</u>		
CDBG Small Cities	14.228	1,715,814
H.O.M.E. Program	14.239	53,238
Brownfield Economic Development Initiative	14.246	<u>151,786</u>
Total Department of Housing and Urban Development		1,920,838
<u>Department of Health and Human Services</u>		
Emergency Services	93.127	<u>54,527</u>
Total Department of Health and Human Services		54,527
<u>Department of Justice</u>		
Police Drug Funds	16.585	47,339
Community Oriented Policing Services	16.710	6,097
Governor's Alliance Against Drugs	16.728	13,123
Gang Resistance Education and Training	16.737	16,323
Edward Byrne Memorial Justice Assistance Grant	16.738	<u>38,914</u>
Total Department of Justice		121,796
<u>Department of Homeland Security</u>		
Urban Areas Security Initiative	97.008	18,577
Buffer Zone Protection Program	97.078	<u>370,665</u>
Total Department of Energy		<u>389,242</u>
Total Federal Assistance		<u>\$ 11,446,792</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, 2011

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 with ARRA
84.027/84.173/84.391	SPED Cluster with ARRA
84.410	Ed Jobs
97.078	Buffer Zone Protection Program

Dollar threshold used to distinguish between type A and type B programs: \$ 343,404

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding

Finding/Noncompliance

11-1 Maintain Sufficient Relevant Evidence of Adjustments (Material Weakness)

During our engagement, we noted approximately \$ 1,060,000 of water and sewer billing adjustments, which the City could not provide sufficient documentation to support this activity. We further noted approximately \$ 1,420,000 of property tax, motor vehicle excise tax, and water and sewer user fees adjustments to reconcile the general ledger with the Tax Collector's detail.

We recommend that the City maintain sufficient relevant evidence of water and sewer adjustments. We further recommend the City Auditor's Office work with the Tax Collector's Office in developing a regular reconciliation process to ensure all activity is properly recorded in the general ledger.

11-2 Reconcile Police and Fire Detail Accounts (Material Weakness)

The City tracks activity related to police and fire outside details in the general ledger; however, this information is not regularly reconciled to supporting documentation maintained by the Police and Fire departments. Lack of reconciliation to supporting documentation increases the risk that general ledger balances may be incomplete and/or inaccurate.

We understand the Police and Fire departments maintain files of open and paid invoices for outside duty services billed to third parties. However, these records are not reconciled with the general ledger on a regular basis. As a result, year-end adjustments to the general ledger are required to reconcile this activity. This process makes it difficult to determine the status of these accounts throughout the year.

We recommend the Police and Fire departments create an outstanding receivable list and that this list be reconciled with the general ledger on a regular basis. This would establish a clean starting point and allow future reconciliations to be performed periodically. We recommend the general ledger be reconciled on a quarterly basis.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
11-3	National School Lunch (10.550) (10.553) (10.555)	<p data-bbox="602 359 1036 422"><u>Improve Cash Collection Process (Significant Deficiency)</u></p> <p data-bbox="602 464 1161 625"><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 data-bbox="602 667 1161 898"><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 data-bbox="602 940 1161 1102"><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> <p data-bbox="602 1144 1161 1297"><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.</p> <p data-bbox="602 1339 1161 1659"><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.</p>	Undetermined

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<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</u></p> <p><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.</p> <p><u>Current Year Status:</u> This issue was not satisfactorily resolved and is repeated as current year finding 11-3.</p>	Undetermined