

**CITY OF SALEM, MASSACHUSETTS**

**SINGLE AUDIT REPORTS**

**PURSUANT TO**

**OMB CIRCULAR A-133**

**JUNE 30, 2001**

**CITY OF SALEM, MASSACHUSETTS**  
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# TUCCI & ROSELLI

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

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

To the Mayor and City Council  
City of Salem, Massachusetts  
Salem, Massachusetts

We have audited the financial statements of the City of Salem, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 12, 2001. This report was qualified with respect to the accounting for: not including a statement of general fixed assets, not including a liability for compensated absences, and for maintaining its enterprise fund on a modified accrual basis; as the accounting principles used were not in accordance with generally accepted accounting principles. We conducted our audit in accordance with generally accepted auditing standards 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 Salem's 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 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Salem in a separate letter dated October 12, 2001.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Salem's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 amount that would be material in relation to the 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. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Salem in a separate letter dated October 12, 2001.

This report is intended for the information of the Mayor, City Council, management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Tucci & Roselli*

Tucci & Roselli  
Certified Public Accountants  
October 12, 2001

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# TUCCI & ROSELLI

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CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

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

To the Mayor and City Council  
City of Salem, Massachusetts  
Salem, Massachusetts

**Compliance**

We have audited the compliance of the City of Salem 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, 2001. The City of Salem's major federal programs are identified in the summary of auditor's 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 Salem's management. Our responsibility is to express an opinion on the City of Salem's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 Salem'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 Salem's compliance with those requirements.

In our opinion, the City of Salem complied, in all material aspects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, 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 01-1.

#### Internal Control Over Compliance

The management of the City of Salem 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 Salem'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.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditure of Federal Awards

We have audited the financial statements of the City of Salem as of and for the year ended June 30, 2001, and have issued our report thereon dated October 12, 2001. Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Salem 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 the audit committee, management, Board of Selectmen, 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.

*Tucci & Roselli*

Tucci & Roselli  
Certified Public Accountants  
October 12, 2001

**CITY OF SALEM, MASSACHUSETTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2001**

<b>Federal Agency / Pass Through Agency/ Program Name</b>	<b>Federal CFDA # Number</b>	<b>Pass-Thru Number</b>	<b>Gross Expenditures</b>
<b><u>U.S. Department of Education</u></b>			
Bilingual Education: Comprehensive School Grants (Models)	84.290U	T290U70135 *	313,694
Field Initiated Research	84.292B	T292B990011	18,570
Foreign Language Assistance	84.293B	T293B60054	4,687
<i>Passed through North Shore Community College</i>			
Technology Preparation	84.243A		2,440
<i>Passed through the Commonwealth of Massachusetts - Department of Education</i>			
Adult Education Career Centers (Literacy Grant)	84.002	342-001-1529-B	7,370
Title I	84.010	305-122-1-0258-B *	1,350,192
Chapter I - Capital Expense / Private	84.016	321-008-1-0258-B *	4,851
SPED: Grants to States	84.027	240-013-1-0258-B *	618,030
SPED: Early Childhood Education	84.173	262-185-1-0258-B *	51,642
Vocational Education - Basic Grants to States	84.048	400-070-1-0258-B	30,661
Title VI	84.151	302-048-1-0258-B	55,641
Emergency Immigration Act	84.162	313-062-1-0258-B	30,605
Teacher Training Math/Science	84.164	303-014-1-0258-B	45,606
Safe and Drug Free Schools	84.186	331-014-1-0258-B	67,616
Goals 2000: State and Local Education Systemic Improvement Grants	84.276	567-020-1-0258-B	39,202
School To Work	84.278		11,010
Technology Literacy Challenge Fund Grants	84.318	613-013-1-0258-B	51,500
Reading Excellence	84.338	634-006-1-0258-B	440,625
Class Size Reduction Program	84.340	651-220-1-0258-B *	160,556
<b><u>U.S. Department of Agriculture</u></b>			
<i>Passed through the Commonwealth of Massachusetts - Department of Education</i>			
Food Distribution	10.550	05-258	64,687
School Breakfast Program	10.553	05-258 *	135,910
National School Lunch Program	10.555	05-258 *	594,145

\* Denotes Major Program

Continued

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.



**CITY OF SALEM, MASSACHUSETTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2001**

<b>Federal Agency / Pass Through Agency/ Program Name</b>	<b>Federal CFDA # Number</b>	<b>Pass-Thru Number</b>	<b>Gross Expenditures</b>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<i>Office of Community Planning and Development</i>			
Community Development Block Grant - Entitlement Grant	14.218	B-99-MC-25-0029 *	1,200,350
<i>Passed through the North Shore Home Consortium</i>			
Home Investment Partnerships Programs	14.239		153,754
<b><u>U.S. Department of Justice</u></b>			
<i>Office of Justice Programs</i>			
Grants to Encourage Arrest Policies (Domestic Violence)	16.590	97-WE-VX-0011	172,060
Problem Solving	16.710	97-PR-WX-0228	10,262
<i>Bureau of Justice Assistance</i>			
<i>Passed through the Commonwealth of Massachusetts - Executive Office of Public Safety</i>			
Local Law Enforcement Block Grant	16.592	99-LB-VX-7594	24,380
<i>Office of Juvenile Justice and Delinquency Prevention</i>			
Police Probation - Juvenile Accountability Incentive Block Grant	16.523		1,595
<b><u>U.S. Department of Labor</u></b>			
Work Incentive Disability Grant	17.207		10,710
<i>Passed through the Greater Lowell Regional Employment Board</i>			
Welfare to Work	17.253		227,112
<i>Passed through the Commonwealth of Massachusetts - Commonwealth Corporation</i>			
Workforce Investment Act	17.255	*	834,303
Career Center Support	17.257		3,000
<i>Passed through the Commonwealth of Massachusetts - Division of Employment and Training</i>			
One-Stop Career Services	17.257	CDES32500OSCC18	57,528

\* Denotes Major Program

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

Continued

**CITY OF SALEM, MASSACHUSETTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2001**

<b>Federal Agency / Pass Through Agency/ Program Name</b>	<b>Federal CFDA # Number</b>	<b>Pass-Thru Number</b>	<b>Gross Expenditures</b>
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through North Shore Elder Services, Inc.</i>			
Title IIIB - Special Programs for the Aging	93.044	033-28674019-51B	21,069
Title IIIC - Nutrition Program for the Aging	93.045		49,617
<b><u>U.S. Environmental Protection Agency</u></b>			
Surveys, Studies, Investigations & Spec. Pur. - Phase III Sewer Rehab.	66.606	XP98106101-0	95,673
Brownsfield Pilot Project	66.811	BP98107201-0	19,273
<i>Passed through Northeastern University Division of Research Management</i>			
CESAME - Growlab	66.951	597380	36
<b><u>Federal Emergency Management Agency</u></b>			
<i>Passed through the Commonwealth of Massachusetts - Massachusetts Emergency Management Agency</i>			
Emergency Management - State and Local Assistance	83.534		16,302
<b>GRAND TOTAL</b>			<b><u>\$6,996,264</u></b>

\* Denotes Major Program

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

Concluded

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2001**

**A. Scope of Audit**

The City of Salem is a governmental agency established by the laws of the Commonwealth of Massachusetts.

All operations related to the City of Salem's federal grant programs are included in the scope of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Compliance testing of all requirements, as described in the Compliance Supplement was performed. The Title I (CFDA# 84.010), Special Education IDEA Cluster (CFDA#s 84.027 and 84.173), Class Size Reduction Program (CFDA# 84.340), National School Lunch Cluster (CFDA#s 10.553, and 10.555), Community Development Block Grant – Entitlement (CFDA# 14.218), and Workforce Investment Act Grant (CFDA# 17.255) were determined to be major programs.

**B. Period Audited**

Single audit testing procedures were performed for federal grant transactions during the year ended June 30, 2001.

**C. Summary of Significant Accounting Policies**

Accounting policies and financial reporting practices permitted for municipalities in Massachusetts are prescribed by the Uniform Municipal Accounting System (UMAS) promulgated by the Commonwealth of Massachusetts Department of Revenue. The significant accounting principles followed by the City are as follows:

**Basis of Presentation -**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant transactions of the City of Salem, although some of these programs may be supplemented with state and other revenue, only federal activity is shown. The receipts, proceeds for federal grants, and disbursements are recorded on the modified accrual basis whereby revenue is recognized when it becomes available and measurable and expenditures are recognized when the liability is incurred. The activities of these programs are reflected in the general purpose financial statements in the Special Revenue Fund.

**CITY OF SALEM, MASSACHUSETTS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2001**  
**(Continued)**

**D.    Non - Cash Commodities**

The Schedule of Expenditures of Federal Awards includes \$64,687 of USDA commodities, which is a non-cash item and accordingly is not recorded in the general purpose financial statements.

**CITY OF SALEM, MASSACHUSETTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2001**

**A. Summary of Audit Results**

1. The auditor's report expresses a qualified opinion on the financial statements of the City of Salem, Massachusetts.
2. No reportable conditions relating to the audit of the 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 financial statements of the City of Salem were disclosed during the audit.
4. Reportable conditions relating to the audit of the major federal award programs are 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 Salem expresses a unqualified opinion.
6. Audit findings relative to the major federal award programs for the City of Salem are reported in Part C of this Schedule.
7. The programs tested as major programs were the Title I (CFDA# 84.010), Special Education IDEA Cluster (CFDA#s 84.027 and 84.173), Class Size Reduction Program (CFDA# 84.340), National School Lunch Cluster (CFDA#s 10.553, and 10.555), Community Development Block Grant – Entitlement (CFDA# 14.218), and Workforce Investment Act Grant (17.255).
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Salem was not determined to be a low risk auditee.

**B. Findings-Financial Statement Audit**

Findings relative to the financial statement audit are located in a separate letter dated October 12, 2001.

**CITY OF SALEM, MASSACHUSETTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2001  
(Continued)**

**C. Findings and Questioned Costs-Major Federal Award Programs Audit**

**Questioned  
Costs**

**U.S. Department of Housing and Urban Development**

**01-1. Community Development Block Grant – Entitlement (CFDA# 14.218)**

*Statement of Condition:* Some loan files do not include required documents.

*Criteria:* For the Rehabilitation and First Time Home Buyers loan programs, certain related documents are to be collected and maintained as part of determining eligibility and securing collateral assets.

*Effect of Condition:* Some loan eligibility documentation and formalized agreement of loan terms and amounts are not on file.

*Cause of Condition:* The tested files were missing four property appraisal reports, and one mortgage agreement.

*Recommendation:* Organization of the loan process should be adjusted to better track the status of open loan files.

**CITY OF SALEM, MASSACHUSETTS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2001**

**D. Findings and Questioned Costs Prior Year**

**Questioned  
Costs**

**U.S. Department of Housing and Urban Development**

**00-1. Community Development Block Grant – Entitlement (CFDA# 14.218)**

*Statement of Condition:* A quarterly report was not filed.

*Criteria:* A Federal Cash Transactions Report is required to be filed by the grant recipient for every three months of activity.

*Effect of Condition:* The grant recipient did not meet the required reporting deadline. The subsequent quarterly report was filed for a six month period.

*Cause of Condition:* The Federal Cash Transaction Report was not completed.

*Recommendation:* An adequate calendar of reporting dates should be established and distributed to all grant administrators, with necessary preparation and meetings times set, so as to allow for timely and complete filing of all mandated reports.

*Current Year Status:* All reports were filed timely during the year.

**CITY OF SALEM, MASSACHUSETTS  
CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2001**

01-1. Community Development Block Grant – Entitlement (CFDA# 14.218)

*Statement of Condition:* Some loan files do not include required documents.

*Corrective Action Planned:* Policies and guidelines regarding loan file organization will be implemented in order to ensure required documents are maintained.

*Anticipated Completion Date:* Fiscal Year 2002

*Contact:* Jane Guy, Assistant Community Development Director