

**CITY OF SALEM, MASSACHUSETTS**

**SINGLE AUDIT REPORTS**

**PURSUANT TO**

**OMB CIRCULAR A-133**

**JUNE 30, 2004**

**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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Massachusetts as of and for the year ended June 30, 2004, which collectively comprise the City of Salem's basic financial statements and have issued our report thereon dated December 15, 2004. 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 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 an opinion 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 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 misstatements caused by error or fraud in amounts 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. 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 December 15, 2004.

Compliance and Other Matters

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 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 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 December 15, 2004.

This report is intended for the information of the Board of Selectmen, management, 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  
December 15, 2004

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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, 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, 2004. 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 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 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 respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

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.

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 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem as of and for the year ended June 30, 2004, and have issued our report thereon dated December 15, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements that collectively comprise of the City of Salem'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 the Board of Selectmen, management, 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  
December 15, 2004

CITY OF SALEM, MASSACHUSETTS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2004

Federal Agency / Pass Through Agency/ Program Name	Federal CFDA # Number	Pass-Thru Number	Gross Expenditures
<b><u>U.S. Department of Education</u></b>			
Fund for the Improvement of Education	84.215	U215X030038	\$193,085
Bilingual Education: Comprehensive School Grants (Models)	84.290	T290U70135	2,893
Foreign Language Assistance	84.293	T293B60054	173,167
Foreign Language Incentive Program	84.294	T294A020006	20,209
<i>Passed through the Commonwealth of Massachusetts - Department of Education</i>			
Adult Education - State Grant Program	84.002	342-007-4-1529-E	16,666
Title I	84.010	305-090-4-0258-E *	1,554,064
Special Education: Grants to States	84.027	240-281-4-0258-E *	1,179,398
Vocational Education - Basic Grants to States	84.048	400-073-4-0258-E	42,874
Title V	84.151	302-077-4-0258-E	38,358
Emergency Immigration Act	84.162	313-017-3-0258-D	16
Eisenhower Grants	84.164	303-142-2-0258-C	22,032
Special Education: Preschool Grants	84.173	262-101-4-0258-E *	58,131
Safe and Drug Free Schools	84.186	331-155-4-0258-E	29,855
Chapter 1 - Capital Expense/Private	84.216	321-004-3-0258-D	2,500
School Support Program	84.218	583-016-4-0258-E	25,182
Goals 2000: State and Local Education Systemic Improvement Grants	84.276	567-006-2-0258-C	7,013
Enhanced Education Through Technology	84.318	170-034-4-0258-E	171,441
Reading Excellence	84.338	635-018-2-0258-C	1,443
Class Size Reduction Program	84.340	651-107-2-0258-C	13,886
Reading First	84.357	728-019-4-0258-E *	550,530
English Language Acquisition Grant	84.365	180-026-4-0258-E	70,493
Improving Teacher Quality State Grants	84.367	140-171-4-0258-E *	341,957
Grants for State Assessments	84.369	190-036-3-0258-D	2,348
<i>Passed through the Town of Rockport, Massachusetts -</i>			
Enhanced Education Through Technology	84.318	170-016-3-0252-D	26,795
<b><u>Corporation for National and Community Service</u></b> <i>Passed through the Commonwealth of Massachusetts - Department of Education</i>			
Learn and Serve School Based	94.004	354-014-4-0258-E	13,433

\* 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, 2004

Federal Agency / Pass Through Agency/ Program Name	Federal CFDA # Number	Pass-Thru Number	Gross Expenditures
<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	116,321
School Breakfast Program	10.553	05-258	154,334
National School Lunch Program	10.555	05-258	677,473
Summer Food Service Program for Children	10.559	05-258	3,500
<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-03-MC-25-0029	2,054,623
Community Development Block Grant - Brownsfields Economic Development Initiative	14.246	B-01-SP-MA-0797	2,058
<i>Passed through the North Shore Home Consortium</i>			
Home Investment Partnerships Programs	14.239		317,184
<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	59,489
<i>Passed Through the Bureau of Justice Assistance</i>			
Local Law Enforcement Block Grant	16.592		21,322
<i>Office of Juvenile Justice and Delinquency Prevention</i>			
Police Probation - Juvenile Accountability Incentive Block Grant	16.523		738
<b><u>U.S. Department of Labor</u></b>			
Work Incentive Disability Grant	17.207		36,118
<i>Passed through the Commonwealth of Massachusetts - Commonwealth Corporation</i>			
Best Initiative - Older Youth	17.267		212,875
<i>Passed through the Commonwealth of Massachusetts - Division of Employment and Training</i>			
Work Incentive Disability - Wagner Peysner	17.207		31,545
Unemployment Insurance	17.225		8,831
Workforce Investment Act - Adult Program	17.258		401,262
Workforce Investment Act - Youth Activities	17.259		515,678
Workforce Investment Act - Dislocated Worker	17.260		914,564
Work Incentive Disability Grant	17.266		50,104
<i>Passed through the Community Transportation Association of America</i>			
Transportation Access Project	17.261		3,153

\* 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, 2004

Federal Agency / Pass Through Agency/ Program Name	Federal CFDA # Number	Pass-Thru Number	Gross Expenditures
<b><u>U.S. Environmental Protection Agency</u></b>			
Brownsfield Pilot Project	66.811	BP-98107201-0	9,112
<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		18,360
Title IIIC - Nutrition Program for the Aging	93.045		53,568
<b><u>U.S. Department of Commerce</u></b> <i>Passed through Massachusetts Institute of Technology</i>			
Sea Grant Support	11.417		3
<b><u>U.S. Department of Homeland Security</u></b> <i>U.S. Federal Emergency Management Agency Emergency Preparedness &amp; Response Directorate</i>			
Assistance to Firefighters	83.554	EMW-2002-FG-08457	10,699
<i>Passed through the Commonwealth of Massachusetts - Massachusetts Emergency Management Agency</i>			
Public Assistance Grants	97.036	FEMA-2191-EM	82,889
State & Local All Hazards Emergency Operations Planning	97.051		9,991
<b>GRAND TOTAL</b>			<b><u><u>\$10,323,563</u></u></b>

\* Denotes Major Program

**CITY OF SALEM, MASSACHUSETTS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2004**

**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), Reading First (CFDA# 84.357), Improving Teacher Quality State Grants (CFDA# 84.367), National School Lunch Cluster (CFDA#s 10.553, 10.555, and 10.559), Community Development Block Grant – Entitlement (CFDA# 14.218), Home Investment Partnerships Program (CFDA# 14.239), and Workforce Investment Act (CFDA#s 17.258, 17.259, and 17.260) grants 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, 2004.

**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 Town are as follows:

**Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant transactions of the Town, although some of these programs may be supplemented with state and other revenue, only federal activity is shown. The receipts, proceeds from 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, 2004**  
**(Continued)**

**D. Non - Cash Commodities**

The City receives non-cash commodities from the U.S. Department of Agriculture as a part of the School Lunch program. In fiscal year 2004, \$116,321 was received; however, this amount is not included in the financial statements.

**E. Amounts Provided to Subrecipients**

The Community Development Block Grant does pass-through some of its funds to a number of subrecipients. For fiscal year 2004, the amount of grant funds awarded to subrecipients was approximately \$227,000.

The Workforce Investment Act program does pass-through some of its funds to subrecipients. For fiscal year 2004, the amount of grant funds awarded to subrecipients was approximately \$278,000.

**CITY OF SALEM, MASSACHUSETTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004**

**A. Summary of Audit Results**

1. The auditor's report expresses a unqualified 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. No 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. No 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), Reading First (CFDA# 84.357), Improving Teacher Quality State Grants (CFDA# 84.367), National School Lunch Cluster (CFDA#s 10.553, 10.555, and 10.559), Community Development Block Grant – Entitlement (CFDA# 14.218), Home Investment Partnerships Program (CFDA# 14.239), and Workforce Investment Act (CFDA#s 17.258, 17.259, and 17.260) grants.
8. The threshold for distinguishing Types A and B programs was \$309,700.
9. The City of Salem was determined to be a low risk auditee.

**B. Findings-Financial Statement Audit**

The City of Salem did not have any reportable conditions, or material weaknesses for the year ended June 30, 2004. Immaterial findings relative to the financial statement audit are located in a separate letter dated December 15, 2004.

**CITY OF SALEM, MASSACHUSETTS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2004  
(Continued)**

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

<u>Findings</u>	<u>Questioned Costs</u>
The City of Salem did not have any questioned costs, reportable conditions, or material weaknesses for the year ended June 30, 2004.	

**CITY OF SALEM, MASSACHUSETTS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2004**

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

<u>Findings</u>	<u>Questioned Costs</u>
The City of Salem did not have any questioned costs, reportable conditions, or material weaknesses for the year ended June 30, 2003.	