

CITY OF SALEM, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2011

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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 Honorable Mayor
and Members of the City Council
City of Salem, Massachusetts

Compliance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Salem, Massachusetts, as of and for the fiscal year ended June 30, 2011, which collectively comprise the City of Salem, Massachusetts' basic financial statements and have issued our report thereon dated October 7, 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 of Salem, Massachusetts' 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 of Salem, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the control over financial reporting.

Our consideration of the 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 deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Salem, Massachusetts' basic 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 basic 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 also noted certain other matters that we reported to management of the City of Salem, Massachusetts in a separate letter dated October 7, 2011.

This report is intended solely for the information and use of management of the City of Salem, Massachusetts, 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.

Powers & Sullivan LLC

October 7, 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 Honorable Mayor
and Members of the City Council
City of 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 could have a direct and material effect on each of the City of Salem's major federal programs for the fiscal year ended June 30, 2011. The City of Salem'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 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, Massachusetts, 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 fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2.

The City's written responses to the findings identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Internal Control Over Compliance

Management of the City of Salem, Massachusetts 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 the 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, 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 of Salem'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 the 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.

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 City of Salem, Massachusetts, as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated October 7, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Salem, Massachusetts' 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 of the City of Salem, Massachusetts, 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.



October 7, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| <u>Federal Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Expenditures</u> |
|---|------------------------------------|---------------------|
| U.S. DEPARTMENT OF AGRICULTURE: | | |
| <u>Passed through State Department of Elementary and Secondary Education:</u> | | |
| Non-Cash Assistance (Commodities): | | |
| National School Lunch Program | 10.555 | \$ 126,121 |
| Cash Assistance: | | |
| School Breakfast Program | 10.553 | 261,354 |
| National School Lunch Program | 10.555 | 969,273 |
| Fresh Fruit and Vegetable Program | 10.582 | 104,056 |
| TOTAL AGRICULTURE | | 1,460,804 |
| U.S. DEPARTMENT OF DEFENSE: | | |
| <u>Direct Program:</u> | | |
| ROTC Language and Culture Training Grants | 12.357 | 64,604 |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | |
| <u>Direct Program:</u> | | |
| Community Development Block Grant/Entitlement Grants | 14.218 | 1,506,972 |
| <u>Passed through North Shore Home Consortium:</u> | | |
| HOME Investment Partnerships Program | 14.239 | 213,950 |
| TOTAL HOUSING | | 1,720,922 |
| U.S. DEPARTMENT OF THE INTERIOR: | | |
| <u>Passed through State Executive Office of Environmental Affairs:</u> | | |
| Clean Vessel Act | 15.616 | 17,860 |
| U.S. DEPARTMENT OF JUSTICE: | | |
| <u>Direct Program:</u> | | |
| Edward Byrne Memorial Formula Grant Program | 16.579 | 10,211 |
| Grants to Encourage Arrest Policies and Enforcement of Protection Orders | 16.590 | 62,745 |
| Local Law Enforcement Trust Funds Program | 16.592 | 2,000 |
| <u>Passed through Executive Office of Public Safety:</u> | | |
| Public Safety Partnership and Community Policing Grants | 16.710 | 10,190 |
| Gang Resistance Education and Training | 16.737 | 5,437 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 4,047 |
| Regional Law Enforcement Technology Services | 16.753 | 67,465 |
| ARRA - Edward Byrne Memorial Justice Grant (JAG) Program / Grants To Units Of Local Government | 16.804 | 99,369 |
| TOTAL JUSTICE | | 261,464 |
| U.S. DEPARTMENT OF LABOR: | | |
| <u>Direct Program:</u> | | |
| Workforce Investment Act - Pilots, Demonstrations, & Research Projects | 17.261 | 81,945 |
| <u>Passed through Commonwealth Corporation:</u> | | |
| Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors | 17.275 | 219,560 |
| ARRA - Workforce Investment Act - Adult Program - Health Care Skills Gap | 17.258 | 23,612 |
| ARRA - Workforce Investment Act - Youth Activities - Health Care Skills Gap | 17.259 | 58,246 |
| ARRA - Workforce Investment Act - Dislocated Worker - Health Care Skills Gap | 17.260 | 43,537 |

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| <u>Federal Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Expenditures</u> |
|---|------------------------------------|---------------------|
| <u>Passed through State Division of Career Services - Workforce Development</u> | | |
| Employment Service/Wagner Peyser Funded Activities | 17.207 | 60,987 |
| ARRA - Employment Service/Wagner Peyser Funded Activities | 17.207 | 25,723 |
| Unemployment Insurance | 17.225 | 42,746 |
| Workforce Investment Act - Adult Program | 17.258 | 565,305 |
| ARRA - Workforce Investment Act - Adult Program | 17.258 | 129,403 |
| Workforce Investment Act - Adult Program - Incentive Program | 17.258 | 15,369 |
| Workforce Investment Act - Youth Activities | 17.259 | 713,614 |
| ARRA - Workforce Investment Act - Youth Activities | 17.259 | 294,873 |
| ARRA - Supplemental Summer Youth Program | 17.259 | 15,286 |
| Workforce Investment Act - Dislocated Worker | 17.260 | 628,335 |
| ARRA - Workforce Investment Act - Dislocated Worker | 17.260 | 151,857 |
| Workforce Investment Act - Dislocated Worker - Incentive Program | 17.260 | 24,151 |
| ARRA - Supplemental Rapid Response | 17.260 | 108,891 |
| State Staff - Rapid Response | 17.260 | 8,186 |
| Rapid Response DCS Staff | 17.278 | 14,130 |
| Disabled Veterans' Outreach Program (DVOP) | 17.801 | 8,186 |
| Local Veterans' Employment Representative Program | 17.804 | 4,555 |
| TOTAL LABOR | | 3,238,497 |
| U.S. DEPARTMENT OF TRANSPORTATION: | | |
| <u>Passed through Executive Office of Public Safety:</u> | | |
| Federally Assisted Construction - Non-Interstate | 20.205 | 102,683 |
| Job Access - Reverse Commute | 20.516 | 57,687 |
| New Freedom Program | 20.521 | 47,298 |
| National Highway Transportation Safety Administration | | |
| Discretionary Safety Grants | 20.614 | 5,491 |
| TOTAL TRANSPORTATION | | 213,159 |
| U.S. DEPARTMENT OF VETERAN AFFAIRS: | | |
| <u>Passed through the State Office of Disabilities and Community Services:</u> | | |
| Vocational Rehabilitation for Disabled Veterans | 16.116 | 770 |
| U.S. ENVIRONMENTAL PROTECTION AGENCY: | | |
| <u>Direct Program:</u> | | |
| Investigations and Special Purpose Utilities Grant | 66.606 | 72,022 |
| U.S. DEPARTMENT OF ENERGY: | | |
| <u>Direct Program:</u> | | |
| Energy Efficiency and Conservation Block Grant | 81.128 | 141,188 |
| U.S. DEPARTMENT OF EDUCATION: | | |
| <u>Passed through State Department of Elementary and Secondary Education</u> | | |
| Adult Education State Grant Program | 84.002 | 24,267 |
| Title I Grants to Local Educational Agencies | 84.010 | 1,407,682 |
| Special Education Grants to States | 84.027 | 1,290,316 |
| Vocational Education Basic Grants to States | 84.048 | 70,167 |
| Charter Schools Assistance/Distributions | 84.282 | 24,437 |
| Education Technology State Grants | 84.318 | 107,112 |
| English Language Acquisition Grants | 84.365 | 98,771 |
| Improving Teacher Quality State Grants | 84.367 | 427,490 |
| ARRA - Title 1 Grants to Local Educational Agencies, Recovery Act | 84.389 | 663,633 |
| ARRA - Special Education Grants for States, Recovery Act | 84.391 | 615,650 |
| ARRA - Special Education Preschool Grants, Recovery Act | 84.392 | 60,465 |
| ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act | 84.394 | 1,703,811 |
| ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act | 84.395 | 9,382 |
| Education Jobs Fund | 84.410 | 238,472 |

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| <u>Federal Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Expenditures</u> |
|---|------------------------------------|----------------------|
| <u>Passed through State Department of Early Education and Care:</u> | | |
| Special Education Preschool Grants | 84.173 | <u>72,128</u> |
| TOTAL EDUCATION | | <u>6,813,783</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | |
| <u>Passed through North Shore Elder Services, Inc.:</u> | | |
| Special Programs for the Aging Title III, Part B Grants for | | |
| Supportive Services and Senior Centers | 93.044 | 19,607 |
| Special Programs for the Aging Title III, Part C Nutrition Services | 93.045 | 76,086 |
| <u>Passed through Executive Office of Health and Human Services:</u> | | |
| National Bioterrorism Hospital Preparedness | 93.889 | <u>2,402</u> |
| TOTAL HEALTH & HUMAN SERVICES | | <u>98,095</u> |
| CORPORATION FOR NATIONAL AND COMMUNITY SERVICE: | | |
| <u>Passed through State Department of Elementary and Secondary Education:</u> | | |
| Learn and Serve America School and Community Based Programs | 94.004 | <u>32,541</u> |
| U.S. DEPARTMENT OF HOMELAND SECURITY: | | |
| <u>Passed through Mass Emergency Management Agency:</u> | | |
| Public Assistance Grants | 97.036 | 159,212 |
| FEMA Firefighters Assistance Grant | 97.044 | 236,449 |
| <u>Passed through the State Seaport Advisory Group:</u> | | |
| Seaport Surveillance | 97.056 | <u>388,740</u> |
| TOTAL HOMELAND SECURITY | | <u>784,401</u> |
| TOTAL | | \$ <u>14,920,110</u> |

(concluded)

See notes to schedule of expenditures of federal awards.

NOTE 1 – Definition of Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Salem, Massachusetts. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

NOTE 2 – Significant Accounting Policies

The accounting and reporting policies of the City of Salem, Massachusetts are set forth below:

- (a) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting.
- (b) Cash Assistance - School Breakfast and Lunch Program - Program expenditures represent federal reimbursement for meals provided during the fiscal year.
- (c) Non-Cash Assistance (Commodities) – School Lunch Program – Program expenditures represent the value of donated foods received during the fiscal year.

NOTE 3 – Program Clusters

In accordance with Subpart A §_.105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non Profit Organizations*, certain programs have been clustered in determining major programs. The following represents the clustered programs:

| <u>Name of Cluster/Program</u> | <u>CFDA Number</u> |
|---|--------------------|
| Child Nutrition Cluster | |
| School Breakfast Program | 10.553 |
| National School Lunch Program | 10.555 |
| Summer Food Service Program for Children | 10.559 |
| CDBG Entitlement Grants Cluster | |
| Community Development Block Grants/Entitlement Grants | 14.218 |
| ARRA - Community Development Block Grant | |
| Entitlement Grants (CDBG-R), Recovery Act Funded | 14.253 |
| WIA Cluster | |
| WIA Adult Program | 17.258 |
| WIA Youth Activities | 17.259 |
| WIA Dislocated Workers | 17.260 |
| Title 1, Part A Cluster | |
| Title I Grants to Local Educational Agencies | 84.010 |
| ARRA – Title 1 Grants to Local Educational Agencies, Recovery Act | 84.389 |
| Special Education Cluster | |
| Special Education Grants to States | 84.027 |
| Special Education Preschool Grants | 84.173 |
| ARRA – Special Education Grants for States, Recovery Act | 84.391 |
| ARRA – Special Education Preschool Grants, Recovery Act | 84.392 |

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the City of Salem, Massachusetts.
2. There were no significant deficiencies relating to the audit of the financial statements reported in the 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*.
3. No instances of noncompliance material to the basic financial statements of the City of Salem, Massachusetts, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the 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.
5. The auditors' report on compliance for the major federal award programs for the City of Salem, Massachusetts, expresses an unqualified opinion.
6. There were two audit findings related to federal award programs.
7. The programs tested as major grants include:

| <u>Program Title</u> | <u>CFDA Number</u> |
|---|--------------------|
| Workforce Investment Act – Adult Program | 17.258 |
| ARRA - Workforce Investment Act – Adult Program | 17.258 |
| Workforce Investment Act – Youth Activities | 17.259 |
| ARRA - Workforce Investment Act – Youth Activities | 17.259 |
| Workforce Investment Act – Dislocated Workers | 17.260 |
| ARRA - Workforce Investment Act – Dislocated Workers | 17.260 |
| Title 1 Grants to Local Educational Agencies | 84.010 |
| Special Education Grants to States | 84.027 |
| Special Education Preschool Grants | 84.173 |
| Improving Teacher Quality State Grants | 84.367 |
| ARRA - Title 1 Grants to Local Educational Agencies, Recovery Act | 84.389 |
| ARRA - Special Education Grants to States, Recovery Act | 84.391 |
| ARRA - Special Education Preschool Grants, Recovery Act | 84.392 |
| ARRA - State Fiscal Stabilization Fund – Education State Grants, Recovery Act | 84.394 |
| Seaport Surveillance | 97.056 |

8. The threshold for distinguishing Types A and B programs was \$447,603.
9. The City of Salem, Massachusetts, was not determined to be a low-risk auditee.

B. Findings and Questioned Costs-Financial Statements Audit

None

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

UNITED STATES DEPARTMENT OF EDUCATION

Title 1 Distribution – CFDA No: 84.010

Special Education Grants to States – CFDA No: 84.027

Special Education Preschool Grants – CFDA No. 84.173

Improving Teacher Quality State Grants – CFDA No: 84.367

2011-1 *Condition and Criteria:* Form FR-1 (Final Financial Report) for the Title I, Special Education grants to States, Special Education Preschool Grants and Improving Teacher Quality Grants was originally due on October 31, 2010. The final financial reports for Special Education Preschool Grants and Improving Teacher Quality Grants were not submitted until November 2010, whereas the reports for Title I and Special Education Grants to States were not submitted until January 2011. All four programs had reports submitted after the deadline and no extensions were filed by the City to allow them to be late.

Cause: Lack of procedures in place to file final reports timely.

Effect: The City is not in compliance with grant requirements.

Questioned Costs: Unknown

Auditors' Recommendation: We recommend the City implement procedures to insure compliance with all grant reporting requirements to ensure the timely filing of the final financial reports.

Grantee's Response: To comply with grant compliance requirements, the Salem Public Schools are in the process of creating an "Action Calendar" to post and distribute to personnel that lists the necessary grant activities throughout the year that need to be performed in order to fulfill grant requirements such as due dates for the Final Financial Reports, grant submission dates and other critical actions.

Special Education Grants to States – CFDA No: 84.027

Special Education Preschool Grants – CFDA No. 84.173

ARRA – Special Education Grants for States, Recovery Act – CFDA No. 84.391

ARRA – Special Education Preschool Grants, Recovery Act – CFDA No. 84.392

Improving Teacher Quality State Grants – CFDA No: 84.367

2011-2 *Condition and Criteria:* OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments" requires grantees to maintain documentation of employee time and effort that has been charged to federal awards. If 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain semi-annual certifications stating that 100% of the employee's time was spent working on grant activities. If less than 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain monthly personnel activity reports documenting 100% of the employee's time.

For fiscal year 2011 the required semi-annual certifications were only completed for the beginning of

the year for the Title IIA grant. The SPED grant certifications were fully completed for the beginning of the year but only partially completed for the second half of the year.

Cause: Lack of procedures in place to ensure completion of time and effort requirements.

Effect: The City is not in compliance with Federal reporting guidelines related to the Special Education Grants and Improving Teacher Quality State Grant.

Questioned Costs: Unknown

Auditors' Recommendation: We recommend the City enact policies and procedures to ensure that they are in compliance with Federal reporting guidelines.

Grantee's Response: To comply with OMB Circular A-87, the Salem Public Schools are in the process of implementing the following changes:

1. Time and effort procedures will be implemented from the Superintendent's office so that all grant funded employees of the District will be required to fill out either monthly or semi annual certifications.
2. Semi-annual certifications will be done in December and June.
3. Monthly certifications will be done the first week of the month.
4. An employee who earns a stipend will be required to fill out an attendance sheet with their name, signature, school, title and grant number at the time that the stipend is earned.
5. Certifications for stipends will be required in addition to the monthly and semi-annual certifications.
6. Grant coordinators will be responsible for collecting the payroll certifications and delivering to the payroll office for filing.

D. Prior Audit Findings and Questioned Costs – Financial Statement Audit

Finding 2010-1 Material Weakness

Condition and Criteria: The City Treasurer is responsible for electronically transmitting employee payroll withholdings to the Commonwealth with each payroll processed. In early May, 2010, the Treasurer transmitted \$577,000 to the Commonwealth instead of the \$22,000 withheld. This resulted in a \$555,000 overpayment. This error was not recorded in the Treasurer's cashbook or in the City's general ledger. The amount reported in the cashbook and on the general ledger was the \$22,000 that was withheld and that should have been transmitted. This error was not brought to the attention of the City's Finance Director, and no significant action was taken to recoup the funds.

By not reporting the transaction as it actually occurred and by not informing the Finance Director, the Treasurer did not disclose that a material error had occurred. The non-disclosure compounds the significant breach in internal controls as timely action was not taken to recover the City's funds. The overpayment was brought to our attention during the Treasurer's last few days with the City, which was the end of July. At that time we immediately informed the Finance Director. Therefore, almost three months had passed before action was taken to recover the City's funds. Once the Finance Director was made aware of the situation, steps were taken to recover the funds and the City received a reimbursement before the end of August.

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 all of the following findings individually and collectively to be material weaknesses in internal control. The typical weekly state payroll withholdings amount transmitted is under \$30,000. There was no detective control in place that prevented a transmittal of funds almost 20 times the normal amount. At some point after the error was made, the Treasurer became aware of the mistake. Once the error was detected, it was incumbent on the Treasurer to immediately take action to recover the funds and to inform the City's Finance Director. Neither of these actions occurred. Finally, proper cash management and accounting controls require all transactions be recorded in the form they occur regardless of an error. This transaction was not recorded in the City's records, and the books of the City were closed.

Status: Resolved. The City has hired a new Treasurer and Assistant Treasurer, in addition the City has implemented new policies and procedures related to the reconciliation procedures and communication in order to reduce the likelihood of incorrect transfers.

E. Prior Audit Findings and Questioned Costs – Major Federal Award Programs Audit

Improving Teacher Quality State Grants - CFDA No: 84.367

2010-2 *Condition and Criteria:* OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments" requires grantees to maintain documentation of employee time and effort that has been charged to federal awards. If 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain semi-annual certifications stating that 100% of the employee's time was spent working on grant activities. If less than 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain monthly personnel activity reports documenting 100% of the employee's time.

Status: Partially Resolved. In Fiscal Year 2011 time and effort documentation for employees with salaries charged 100% to the Improving Teacher Quality grant were provided for the beginning of the year but they did not have procedures in place to ensure the remaining were completed. See current year comment 11-2.

Special Education Grants to States – CFDA No: 84.027

Improving Teacher Quality State Grants – CFDA No: 84.367

2010-3 *Condition and Criteria:* During our 2010 audit we were provided a listing of approved teachers and support staff whose salaries were to be charged to the grant. From the City's payroll records provided, we were unable to trace all of the selected individuals to the listing of approved staff. Therefore, we were unable to verify that individuals paid with grant funds worked on the grants.

Status: Resolved. During the 2011 audit supporting documentation for employees charged to the Improving Teacher Quality grant and Special Education grant was provided and deemed reasonable.