

CITY OF SALEM, MASSACHUSETTS

SINGLE AUDIT REPORTS

PURSUANT TO

OMB CIRCULAR A-133

JUNE 30, 2002

CITY OF SALEM, MASSACHUSETTS
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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, 2002, and have issued our report thereon dated December 5, 2002. This report was unqualified. 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.

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 December 5, 2002.

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 December 5, 2002.

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
December 5, 2002

TUCCI & ROSELLI

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, 2002. 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 aspects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

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, 2002, and have issued our report thereon dated December 5, 2002. 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
December 5, 2002

**CITY OF SALEM, MASSACHUSETTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2002**

Federal Agency / Pass Through Agency/ Program Name	Federal CFDA # Number	Pass-Thru Number	Gross Expenditures
<u>U.S. Department of Education</u>			
Bilingual Education: Comprehensive School Grants (Models)	84.290	T290U70135	\$274,941
Field Initiated Research	84.292	T292B990011	400
Foreign Language Assistance	84.293	T293B60054	122,537
<i>Passed through North Shore Community College</i>			
Technology Preparation	84.243		2,210
<i>Passed through the Commonwealth of Massachusetts - Department of Education</i>			
Adult Education Career Centers (Literacy Grant)	84.002	342-013-2-1529-C	2,900
Title I	84.010	305-044-2-0258-C *	1,340,736
Capital Expense	84.016	321-007-2-0258-C *	5,601
Program Improvement - CII	84.218	323-021-2-0258-C *	495
Special Education: Grants to States	84.027	240-114-2-0258-C *	813,213
Special Education: Preschool Grants	84.173	262-024-2-0258-C *	75,490
Vocational Education - Basic Grants to States	84.048	400-079-2-0258-C	39,609
Title VI	84.151	302-305-2-0258-C	39,362
Emergency Immigration Act	84.162	313-088-2-0258-C	24,422
Teacher Training Math/Science	84.164	303-142-2-0258-C	19,957
Safe and Drug Free Schools	84.186	333-011-2-0258-C	75,311
Goals 2000: State and Local Education Systemic Improvement Grants	84.276	567-006-2-0258-C	74,208
Technology Literacy Challenge Fund Grants	84.318	612-046-2-0258-C	76,545
Reading Excellence	84.338	635-018-2-0258-C	209,457
Class Size Reduction Program	84.340	651-107-2-0258-C	197,510
Lean and Serve School Based	94.004	354-020-2-0258-C	12,632
<u>U.S. Department of Agriculture</u>			
<i>Passed through the Commonwealth of Massachusetts - Department of Education</i>			
Food Distribution	10.550	05-258	64,814
School Breakfast Program	10.553	05-258 *	137,422
National School Lunch Program	10.555	05-258 *	642,472

* 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, 2002

Federal Agency / Pass Through Agency/ Program Name	Federal CFDA # Number	Pass-Thru Number	Gross Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<i>Office of Community Planning and Development</i>			
Community Development Block Grant - Entitlement Grant	14.218	B-01-MC-25-0029 *	\$1,528,638
<i>Passed through the North Shore Home Consortium</i>			
Home Investment Partnerships Programs	14.239	*	157,896
<u>U.S. Department of Justice</u>			
<i>Office of Justice Programs</i>			
Grants to Encourage Arrest Policies (Domestic Violence)	16.590	97-WE-VX-0011	198,565
<i>Passed Through the Bureau of Justice Assistance</i>			
Local Law Enforcement Block Grant	16.592	99-LB-VX-7594	35,127
<i>Office of Juvenile Justice and Delinquency Prevention</i>			
Police Probation - Juvenile Accountability Incentive Block Grant	16.523		2,835
<u>U.S. Department of Labor</u>			
Work Incentive Disability Grant	17.207		72,475
<i>Passed through the Commonwealth of Massachusetts - Commonwealth Corporation</i>			
Welfare to Work	17.253	*	449,259
Workforce Investment Act	17.255	*	920,030
Workforce Investment Act - Adult Program	17.258	*	213,352
Workforce Investment Act - Youth Activities	17.259	*	404,667
Workforce Investment Act - Dislocated Worker	17.260	*	584,185
<i>Passed through the Commonwealth of Massachusetts - Division of Employment and Training</i>			
Work Incentive Disability - Wagner Peyser	17.207		37,036
Unemployment Insurance	17.225		4,289
One-Stop Career Services	17.257	SCDES32500OSCC18	64,028
<i>Passed through the Commonwealth of Massachusetts - Department of Education</i>			
Workforce Investment Act - Youth Opportunities (School to Work)	17.249	SCDOE72002218007	66,562

* 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, 2002

Federal Agency / Pass Through Agency/ Program Name	Federal CFDA # Number	Pass-Thru Number	Gross Expenditures
<u>U.S. Department of Health and Human Services</u>			
<i>Passed through North Shore Elder Services, Inc.</i>			
Title IIIB - Special Programs for the Aging	93.044	033-28674019-51B	\$19,215
Title IIIC - Nutrition Program for the Aging	93.045		60,445
<i>Passed through the Commonwealth of Massachusetts - Department of Transitional Assistance</i>			
Temporary Assistance for Needy Families	93.558		276,965
<u>U.S. Environmental Protection Agency</u>			
Brownsfield Pilot Project	66.811	BP98107201-0	9,574
<u>U.S. Department of Commerce</u>			
<i>Passed through Massachusetts Institute of Technology</i>			
Sea Grant Support	11.417		939
<u>Federal Emergency Management Agency</u>			
<i>Passed through the Commonwealth of Massachusetts - Massachusetts Emergency Management Agency</i>			
Emergency Management - State and Local Assistance	83.534	CCDA10001SLAFY1	24,328
GRAND TOTAL			<u><u>\$9,382,654</u></u>

* 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, 2002**

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), National School Lunch Cluster (CFDA#s 10.553, and 10.555), Community Development Block Grant – Entitlement (CFDA# 14.218), Home Investment Partnerships Program (CFDA# 14.239), Welfare to Work (CFDA# 17.253), and Workforce Investment Act (CFDA#s 17.255, 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, 2002.

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 basic financial statements in the Special Revenue Fund.

CITY OF SALEM, MASSACHUSETTS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2002
(Continued)

D. Non - Cash Commodities

The Schedule of Expenditures of Federal Awards includes \$64,814 of USDA commodities, which is a non-cash item and accordingly is not recorded in the basic financial statements.

**CITY OF SALEM, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2002**

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), National School Lunch Cluster (CFDA#s 10.553, and 10.555), Community Development Block Grant – Entitlement (CFDA# 14.218), Home Investment Partnerships Program (CFDA# 14.239), Welfare to Work (CFDA# 17.253), and Workforce Investment Act (CFDA#s 17.255, 17.258, 17.259, and 17.260) grants.
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 December 5, 2002.

**CITY OF SALEM, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2002
(Continued)**

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

**Questioned
Costs**

The City of Salem did not have any questioned costs, reportable conditions, or material weaknesses for the year ended June 30, 2002.

**CITY OF SALEM, MASSACHUSETTS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2002**

D. Findings and Questioned Costs Prior Year

**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.

Current Year Status: A reorganization of office duties and procedures along with the hiring of additional, qualified staff appears to have effectively corrected for any prior substantial prior year findings. Continued improvements are anticipated for subsequent periods, also.

