

***CITY OF SALEM, MASSACHUSETTS***

***REPORTS ON FEDERAL AWARD PROGRAMS***

***FISCAL YEAR ENDED JUNE 30, 2009***

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**FISCAL YEAR ENDED JUNE 30, 2009**

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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

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, 2009, which collectively comprise the City of Salem, Massachusetts' basic financial statements and have issued our report thereon dated December 14, 2009. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the basic 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 City of Salem, Massachusetts' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Salem, Massachusetts' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Salem, Massachusetts' financial statement that is more than inconsequential will not be prevented or detected by the City of Salem, Massachusetts' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Salem, Massachusetts' internal control.

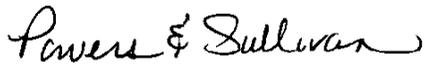
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

## 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 December 14, 2009.

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.

A handwritten signature in cursive script that reads "Pavers & Sullivan".

Wakefield, Massachusetts  
December 14, 2009



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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND 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 are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. 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 are applicable its major federal programs for the fiscal year ended June 30, 2009.

**Internal Control Over Compliance**

The 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 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the

entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or 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 City of Salem, Massachusetts, as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated December 14, 2009. 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.



Wakefield, Massachusetts  
December 14, 2009

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| <u>Federal Grantor/Program Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Expenditures</u>  |
|--|------------------------------------|----------------------|
| U.S. DEPARTMENT OF AGRICULTURE:  |                                    |                      |
| <u>Passed through State Department of Elementary and Secondary Education:</u>          |                                    |                      |
| Food Donation  | 10.550                             | \$ 148,715           |
| School Breakfast Program   | 10.553                             | 244,326              |
| National School Lunch Program  | 10.555                             | 842,257              |
| Summer Food Service Program  | 10.559                             | 28,884               |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561                             | 3,409                |
| Fresh Fruit and Vegetable Program  | 10.582                             | <u>33,336</u>        |
| <br>TOTAL AGRICULTURE  |                                    | <br><u>1,300,927</u> |
| <br>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:                                  |                                    |                      |
| <u>Direct Program:</u>   |                                    |                      |
| Community Development Block Grant/Entitlement Grants                                   | 14.218                             | 1,563,527            |
| <u>Passed through North Shore Home Consortium:</u>                                     |                                    |                      |
| HOME Investment Partnerships Program   | 14.239                             | <u>181,423</u>       |
| <br>TOTAL HOUSING  |                                    | <br><u>1,744,950</u> |
| <br>U.S. DEPARTMENT OF THE INTERIOR:   |                                    |                      |
| <u>Passed through State Executive Office of Environmental Affairs:</u>                 |                                    |                      |
| Clean Vessel Act   | 15.616                             | 47,150               |
| Historic Preservation Funds Grants In Aid  | 15.904                             | <u>18,000</u>        |
| <br>TOTAL INTERIOR   |                                    | <br><u>65,150</u>    |
| <br>U.S. DEPARTMENT OF JUSTICE:  |                                    |                      |
| <u>Direct Program:</u>   |                                    |                      |
| Edward Byrne Memorial Formula Grant Program  | 16.579                             | 1,516                |
| Grants to Encourage Arrest Policies and Enforcement of Protection Orders               | 16.590                             | 36,902               |
| <u>Passed through Executive Office of Public Safety:</u>                               |                                    |                      |
| Public Safety Partnership and Community Policing Grants                                | 16.710                             | 173,761              |
| Gang Resistance Education and Training   | 16.737                             | 32,525               |
| Edward Byrne Memorial Justice Assistance Grant Program                                 | 16.738                             | <u>76,112</u>        |
| <br>TOTAL JUSTICE  |                                    | <br><u>320,816</u>   |
| <br>U.S. DEPARTMENT OF LABOR:  |                                    |                      |
| <u>Passed through Commonwealth Corporation:</u>  |                                    |                      |
| WIA Incentive Grants Section 503 Grants to States                                      | 17.267                             | 31,551               |

(continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| <u>Federal Grantor/Program Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Expenditures</u> |
|--|------------------------------------|---------------------|
| <u>Passed through State Division of Career Services - Workforce Development:</u>     |                                    |                     |
| Employment Service/Wagner Peyser Funded Activities                                   | 17.207                             | 59,578              |
| Unemployment Insurance   | 17.225                             | 16,390              |
| Workforce Investment Act - Adult Program   | 17.258                             | 869,997             |
| ARRA - Workforce Investment Act - Adult Program                                      | 17.258                             | 1,503               |
| Workforce Investment Act - Youth Activities  | 17.259                             | 1,008,722           |
| ARRA - Workforce Investment Act - Youth Activities                                   | 17.259                             | 54,099              |
| Workforce Investment Act - Dislocated Worker   | 17.260                             | 973,631             |
| ARRA - Workforce Investment Act - Dislocated Worker                                  | 17.260                             | 44,255              |
| Work Incentive Grant   | 17.266                             | 56,226              |
| Disabled Veterans' Outreach Program (DVOP)   | 17.801                             | 6,765               |
| Local Veterans' Employment Representative Program                                    | 17.804                             | 1,553               |
|  |                                    | <hr/>               |
| TOTAL LABOR  |                                    | 3,124,270           |
| <br>   |                                    |                     |
| U.S. DEPARTMENT OF TRANSPORTATION:   |                                    |                     |
| <u>Passed through Executive Office of Public Safety:</u>                             |                                    |                     |
| Recreational Trails Program  | 20.219                             | 2,279               |
| Public Transportation Research   | 20.514                             | 65,235              |
| Job Access - Reverse Commute   | 20.516                             | 312                 |
| New Freedom Program  | 20.521                             | 1,332               |
| National Highway Transportation Safety Administration<br>Discretionary Safety Grants | 20.614                             | 8,521               |
|  |                                    | <hr/>               |
| TOTAL TRANSPORTATION   |                                    | 77,679              |
| <br>   |                                    |                     |
| 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                             | 375                 |
|  |                                    | <hr/>               |
| <br>   |                                    |                     |
| U.S. ENVIRONMENTAL PROTECTION AGENCY:  |                                    |                     |
| <u>Direct Program:</u>   |                                    |                     |
| Brownfield Job Training Cooperative Agreements                                       | 66.811                             | 160,913             |
|  |                                    | <hr/>               |
| <br>   |                                    |                     |
| U.S. DEPARTMENT OF EDUCATION:  |                                    |                     |
| <u>Passed through State Department of Elementary and Secondary Education:</u>        |                                    |                     |
| Adult Education State Grant Program  | 84.002                             | 46,995              |
| Title I Grants to Local Educational Agencies   | 84.010                             | 1,324,076           |
| Special Education Grants to States   | 84.027                             | 1,245,409           |
| Vocational Education Basic Grants to States  | 84.048                             | 25,155              |
| Twenty-First Century Community Learning Centers                                      | 84.287                             | 247,510             |
| State Grants for Innovative Programs   | 84.298                             | 140                 |
| Education Technology State Grants  | 84.318                             | 16,064              |
| Reading First State Grants   | 84.357                             | 45,055              |
| English Language Acquisition Grants  | 84.365                             | 122,092             |
| Improving Teacher Quality State Grants   | 84.367                             | 210,138             |
| ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act        | 84.394                             | 1,511,335           |
| <u>Passed through State Department of Early Education and Care:</u>                  |                                    |                     |
| Special Education Preschool Grants   | 84.173                             | 39,531              |
|  |                                    | <hr/>               |
| TOTAL EDUCATION  |                                    | 4,833,500           |

(continued)

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2009

| <u>Federal Grantor/Program Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Expenditures</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                             | 19,421                   |
| Special Programs for the Aging Title III, Part C Nutrition Services                                | 93.045                             | 61,661                   |
| Medicaid Infrastructure Grants to Support the Competitive Employment of People With Disabilities   | 93.768                             | 10,334                   |
| <u>Passed through Executive Office of Health and Human Services:</u>                               |                                    |                          |
| National Bioterrorism Hospital Preparedness  | 93.889                             | <u>3,690</u>             |
| TOTAL HEALTH & HUMAN SERVICES  |                                    | <u>95,106</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>7,287</u>             |
| U.S. DEPARTMENT OF HOMELAND SECURITY:  |                                    |                          |
| <u>Direct Program:</u>   |                                    |                          |
| Assistance to Firefighters   | 97.044                             | 66,750                   |
| <u>Passed through Mass Emergency Management Agency:</u>  |                                    |                          |
| Public Assistance Grants   | 97.036                             | 13,125                   |
| State and Local All Hazards Emergency Operations Planning  | 97.051                             | <u>335</u>               |
| TOTAL HOMELAND SECURITY  |                                    | <u>80,210</u>            |
| <br>TOTAL  |                                    | <br><u>\$ 11,811,183</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) National School Lunch Program and School Breakfast Program - Program expenditures represent federal reimbursement for meals provided during the 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<br/>Number</u> |
|---|------------------------|
| <b>Child Nutrition Cluster</b>                              |                        |
| School Breakfast Program                                    | 10.553                 |
| National School Lunch Program                               | 10.555                 |
| Summer Food Service Program for Children                    | 10.559                 |
| <b>CDBG - Entitlement and (HUD-Administered)</b>            |                        |
| <b>Small Cities Cluster</b>                                 |                        |
| Community Development Block Grants/<br>Entitlement Grants   | 14.218                 |
| Community Development Block Grants/<br>Small Cities Program | 14.219                 |
| <b>WIA Cluster</b>  |                        |
| WIA Adult Program   | 17.258                 |
| WIA Youth Activities  | 17.259                 |
| WIA Dislocated Workers                                      | 17.260                 |
| <b>Special Education Cluster</b>                            |                        |
| Special Education Grants to States                          | 84.027                 |
| Special Education Preschool Grants                          | 84.173                 |

**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. No significant deficiencies relating to the audit of the financial statements are 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 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, Massachusetts, expresses an unqualified opinion.
6. There were no audit findings related to federal award programs.
7. The programs tested as major grants include:

| <u>Program Title</u>                          | <u>CFDA<br/>Number</u> |
|---|------------------------|
| School Breakfast Program                      | 10.553                 |
| National School Lunch Program                 | 10.555                 |
| Summer Food Service Program for Children      | 10.559                 |
| Workforce Investment Act – Adult Program      | 17.258                 |
| Workforce Investment Act – Youth Activities   | 17.259                 |
| Workforce Investment Act – Dislocated Workers | 17.260                 |
| Title 1 Grants to Local Educational Agencies  | 84.010                 |
| State Fiscal Stabilization Fund               | 84.394                 |

8. The threshold for distinguishing Types A and B programs was \$300,000.
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**

None

**D. Prior Audit Findings and Questioned Costs – Financial Statement Audit****Finding 2008-1**

Internal Control Over Procurement

*Condition and Criteria:* The City entered into a contract with North Shore Medical Center to provide Special Education services for the contract period of July 1, 2008 through June 30, 2011. The contract did not follow any purchasing or bidding procedures, as required by the City's internal procurement policies. The contract included \$500,000 of administrative fees allocated over the three year contract. The administrative fees were determined to be a prior year balance owed to North Shore Medical Center.

Status – *Resolved.* The City has implemented procedures to ensure compliance with the internal purchasing procedures when procuring future contractual services.

**E. Prior Audit Findings and Questioned Costs – Major Federal Award Programs Audit****Finding 2008-2**

National School Lunch Program and School Breakfast Program – CFDA No. 10.555

*Condition and Criteria:* The City did not perform the sampling and verification of free and reduced price applications as required by federal regulations. Consequently, the required changes to eligibility status based on documentation and other information obtained through the verification process could not be made.

Status – *Resolved.* The City has made changes in the administration of the school lunch program. The new administrator has implemented policies and procedures from the Department of Elementary and Secondary Education's Eligibility Manual which was completed as of the end of November 2008. The new process began in October of 2008, and was completed by November 2008, in compliance with the requirements.