

CITY OF SALEM, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2012

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REPORTS ON FEDERAL AWARD PROGRAMS
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100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

**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, 2012, which collectively comprise the City of Salem, Massachusetts' basic financial statements and have issued our report thereon dated December 10, 2012. 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 City's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, 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 10, 2012.

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

December 10, 2012



100 Quannapowitt Parkway

Suite 101

Wakefield, MA 01880

T. 781-914-1700

F. 781-914-1701

www.powersandsullivan.com

**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, 2012. 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, 2012. 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 item 2012-1.

The City's written response to the finding identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, 2012, and have issued our report thereon dated December 10, 2012. 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.

Powers & Sullivan LLC

December 10, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<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	\$ 94,321
Cash Assistance:		
School Breakfast Program	10.553	260,605
National School Lunch Program	10.555	1,019,337
ARRA - USDA Children Nutrition, Recovery Act	10.579	18,983
Fresh Fruit and Vegetable Program	10.582	98,753
TOTAL AGRICULTURE		1,491,999
U.S. DEPARTMENT OF DEFENSE:		
<u>Direct Program:</u>		
ROTC Language and Culture Training Grants	12.357	57,020
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Direct Program:</u>		
Community Development Block Grant/Entitlement Grants	14.218	1,261,761
<u>Passed through North Shore Home Consortium:</u>		
HOME Investment Partnerships Program	14.239	115,257
TOTAL HOUSING		1,377,018
U.S. DEPARTMENT OF THE INTERIOR:		
<u>Passed through State Executive Office of Environmental Affairs:</u>		
Clean Vessel Act	15.616	5,354
Historic Preservation Funds Grants In Aid	15.904	15,000
TOTAL INTERIOR		20,354
U.S. DEPARTMENT OF JUSTICE:		
<u>Direct Program:</u>		
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	34,905
Local Law Enforcement Trust Funds Program	16.592	1,000
<u>Passed through Executive Office of Public Safety:</u>		
Public Safety Partnership and Community Policing Grants	16.710	27,985
Gang Resistance Education and Training	16.737	3,322
Edward Byrne Memorial Justice Assistance Grant Program	16.738	11,252
Regional Law Enforcement Technology Services	16.753	109,723
<u>Passed through the Commonwealth Corporation:</u>		
ARRA - Edward Byrne Memorial Justice Grant (JAG) Program / Grants To Units Of Local Government	16.803	142,122
TOTAL JUSTICE		330,309

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF LABOR:		
<u>Direct Program:</u>		
Workforce Investment Act - Pilots, Demonstrations, & Research Projects	17.261	141,683
<u>Passed through the Essex County Community Organization (ECCO) E-Team:</u>		
Workforce Investment Act - Pilots, Demonstrations, & Research Projects	17.261	5,715
<u>Passed through Commonwealth Corporation:</u>		
Program of Competitive Grants for Worker Training and Placement in		
High Growth and Emerging Industry Sectors	17.275	407,399
ARRA - Workforce Investment Act - Adult Program - Health Care Skills Gap	17.258	4,391
ARRA - Workforce Investment Act - Youth Activities - Health Care Skills Gap	17.259	10,831
ARRA - Workforce Investment Act - Dislocated Worker - Health Care Skills Gap	17.278	8,096
<u>Passed through State Division of Career Services - Workforce Development:</u>		
Employment Service/Wagner Peyser Funded Activities	17.207	106,438
Unemployment Insurance	17.225	70,130
Workforce Investment Act - Adult Program	17.258	648,476
ARRA - Workforce Investment Act - Adult Program	17.258	3,840
Workforce Investment Act - Youth Activities	17.259	838,427
ARRA - Workforce Investment Act - Youth Activities	17.259	21,291
Workforce Investment Act - Dislocated Worker Formula Grants	17.278	951,414
ARRA - Workforce Investment Act - Dislocated Worker Formula Grants	17.278	16,426
Disabled Veterans' Outreach Program (DVOP)	17.801	7,977
Local Veterans' Employment Representative Program	17.804	14,130
TOTAL LABOR		<u>3,256,664</u>
U.S. DEPARTMENT OF TRANSPORTATION:		
<u>Passed through Executive Office of Public Safety:</u>		
Federally Assisted Construction - Non-Interstate	20.205	98,215
National Highway Transportation Safety Administration		
Discretionary Safety Grants	20.614	7,161
<u>Passed through State Department of Transportation:</u>		
Job Access - Reverse Commute	20.516	82,464
New Freedom Program	20.521	113,992
TOTAL TRANSPORTATION		<u>301,832</u>
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	1,170
U.S. DEPARTMENT OF ENERGY:		
<u>Direct Program:</u>		
Energy Efficiency and Conservation Block Grant	81.128	18,137

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through State Department of Elementary and Secondary Education:</u>		
Adult Education State Grant Program	84.002	26,970
Title I Grants to Local Educational Agencies	84.010	1,462,748
Special Education Grants to States (IDEA, Part B)	84.027	1,298,057
Special Education Grants to States (IDEA, Part B, 611)	84.027A	59,589
Vocational Education Basic Grants to States	84.048	54,629
Charter Schools Assistance/Distributions	84.282	207,029
Education Technology State Grants	84.318	46,095
English Language Acquisition Grants	84.365	89,449
Improving Teacher Quality State Grants	84.367	387,249
ARRA - Title 1 Grants to Local Educational Agencies, Recovery Act	84.389	104,092
ARRA - Special Education Grants for States, Recovery Act	84.391	76,296
ARRA - Special Education Preschool Grants, Recovery Act	84.392	4,938
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	38,742
ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act	84.395	142,972
Education Jobs Fund	84.410	8,149
<u>Passed through State Department of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	118,752
TOTAL EDUCATION		4,125,756
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	22,085
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	67,589
<u>Passed through Executive Office of Health and Human Services:</u>		
Strengthening Public Health Infrastructure	93.507	50
National Bioterrorism Hospital Preparedness	93.889	2,000
TOTAL HEALTH & HUMAN SERVICES		91,724
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	25,723
U.S. DEPARTMENT OF HOMELAND SECURITY:		
<u>Passed through Mass Emergency Management Agency:</u>		
Public Assistance Grants	97.036	16,855
<u>Passed through the State Seaport Advisory Group:</u>		
Port Security Grant	97.056	315,736
TOTAL HOMELAND SECURITY		332,591
TOTAL		\$ 11,430,297

(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. Accordingly, expenditures are recognized when the liability is incurred.
- (b) Cash Assistance - School Breakfast and National Lunch Program - Program expenditures represent federal reimbursement for meals provided during the fiscal year.
- (c) Non-Cash Assistance (Commodities) - National 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
JAG Program Cluster	
Edward Byrne Memorial Justice Assistance Grant Program	16.738
ARRA-Edward Byrne Memorial Justice Grant (JAG) Program /Grants to Units of Local Government	16.803
Workforce Investment Act (WIA) Cluster	
WIA Adult Program	17.258
ARRA - WIA Adult Program	17.258
WIA Youth Activities	17.259
ARRA - WIA Youth Activities	17.259
WIA Dislocated Worker Formula Grants	17.278
ARRA - WIA Dislocated Worker Formula Grants	17.278
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 (IDEA)	
Special Education - Grants to States (IDEA Part B)	84.027
Special Education - Grants to States (IDEA Part B, 611)	84.027A

Special Education - Preschool Grants	84.173
ARRA – Special Education - Grants to States, Recovery Act	84.391
ARRA – Special Education - Preschool Grants, Recovery Act	84.392

Aging Cluster

Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045

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 was one audit finding related to federal award programs.
7. The programs tested as major grants include:

<u>Program Title</u>	<u>CFDA Number</u>
National School Lunch Program	10.555
School Breakfast Program	10.553
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275
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 Formula Grants	17.278
ARRA - Workforce Investment Act – Dislocated Workers Formula Grants	17.278
Special Education Grants to States (IDEA Part B)	84.027
Special Education Grants to States (IDEA Part B, 611)	84.027A
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
Port Security Grant	97.056

8. The threshold for distinguishing Types A and B programs was \$342,909.
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

Special Education - Preschool Grants – CFDA No. 84.173

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

2012-1 *Condition and Criteria:* Form FR-1 (Final Financial Reports) for the Special Education Preschool Grant and Special Education Preschool Grant, Recovery Grant were originally due on October 31, 2011 and were not submitted until January 2012. There were no extensions filed to allow the final reporting on the grants 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: None.

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: The Grants Office within the Salem School Business Office has created an "Action Calendar" that lists the necessary grant activities throughout the year which need to be performed in order to fulfill grant requirements. These activities include due dates for FR-1's (Final Reports), grant submittal dates, monthly drawdown dates, Time/Effort Certification due dates, quarterly fringe, recons and other critical actions. Specifically regarding the FR-1's, these reports will be submitted towards the beginning of the 60-day filing period. If necessary, any requests for extensions will be filed prior to the grants expiration date in writing and a record will be kept on file.

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

None

E. Prior Audit 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 Reports) 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.

Status: Unresolved. See current year finding 2012-1 related to the Special Education preschool grants final reports being filed late.

Special Education Grants to States (IDEA Part B) – 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.

Status: Resolved. Procedures were implemented within fiscal year 2012 involving the semi-annual certifications for employees paid out of federal grant funding.