

CITY OF SALEM, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2013

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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

Independent Auditor's Report

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

Compliance

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Massachusetts, as of and for the fiscal year ended June 30, 2013 (except for the Salem Contributory Retirement System which is as of and for the year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the City of Salem, Massachusetts' basic financial statements, and have issued our report thereon dated November 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Salem, Massachusetts' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Salem, Massachusetts' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Powers & Sullivan LLC

November 12, 2013



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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED
BY OMB CIRCULAR A-133**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Salem, Massachusetts' compliance with the types of compliance requirements described in the *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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Salem, Massachusetts' major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the City of Salem's compliance.

Opinion on Each Major Federal Program

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, 2013.

Report on Internal Control Over Compliance

Management of the City of Salem, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the City of Salem's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2013, and the related notes to the financial statements, which collectively comprise the City of Salem, Massachusetts' basic financial statements. We issued our report thereon dated November 12, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing

standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Powers & Sullivan LLC

November 12, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<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	\$ 145,578
Cash Assistance:		
School Breakfast Program	10.553	271,236
National School Lunch Program	10.555	1,018,248
Fresh Fruit and Vegetable Program	10.582	<u>90,655</u>
 TOTAL AGRICULTURE		 <u>1,525,717</u>
U.S. DEPARTMENT OF DEFENSE:		
<u>Direct Program:</u>		
ROTC Language and Culture Training Grants	12.357	<u>61,629</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Direct Program:</u>		
Community Development Block Grant/Entitlement Grants	14.218	1,216,503
<u>Passed through North Shore Home Consortium:</u>		
HOME Investment Partnerships Program	14.239	<u>197,190</u>
 TOTAL HOUSING		 <u>1,413,693</u>
U.S. DEPARTMENT OF THE INTERIOR:		
<u>Passed through State Executive Office of Environmental Affairs:</u>		
Clean Vessel Act	15.616	7,137
Historic Preservation Funds Grants In Aid	15.904	<u>7,500</u>
 TOTAL INTERIOR		 <u>14,637</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	<u>825</u>
U.S. DEPARTMENT OF JUSTICE:		
<u>Direct Program:</u>		
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	5,364
Local Law Enforcement Trust Funds Program	16.592	63,159
<u>Passed through Executive Office of Public Safety:</u>		
Public Safety Partnership and Community Policing Grants	16.710	12,216
Gang Resistance Education and Training	16.737	1,985
Edward Byrne Memorial Justice Assistance Grant Program	16.738	15,929
Congressionally Recommended Awards	16.753	<u>33,627</u>
 TOTAL JUSTICE		 <u>132,280</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<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	20,194
<u>Passed through Commonwealth Corporation:</u>		
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	343,801
<u>Passed through State Division of Career Services - Workforce Development:</u>		
Employment Service/Wagner Peysner Funded Activities	17.207	114,870
Unemployment Insurance	17.225	127,543
Trace Adjustment Assistance	17.245	10,973
Workforce Investment Act - Adult Program	17.258	672,561
Workforce Investment Act - Youth Activities	17.259	749,870
Workforce Investment Act - Dislocated Worker Formula Grants	17.278	785,665
Disabled Veterans' Outreach Program (DVOP)	17.801	11,188
Local Veterans' Employment Representative Program	17.804	10,507
		<hr/>
TOTAL LABOR		2,847,172
U.S. DEPARTMENT OF TRANSPORTATION:		
<u>Passed through Executive Office of Public Safety:</u>		
Highway Planning and Construction	20.205	1,900,685
National Highway Traffic Safety Administration Discretionary Safety Grants	20.614	4,994
<u>Passed through State Department of Transportation:</u>		
Job Access - Reverse Commute	20.516	185,216
New Freedom Program	20.521	180,106
		<hr/>
TOTAL TRANSPORTATION		2,271,001
U.S. DEPARTMENT OF THE NATIONAL ENDOWMENT FOR THE ARTS:		
<u>Direct Program:</u>		
Promotion of the Arts - Grants to Organizations and Individuals	45.024	14,800
		<hr/>
U.S. DEPARTMENT OF ENERGY:		
<u>Direct Program:</u>		
Energy Efficiency and Conservation Block Grant	81.128	1,800
		<hr/>
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through State Department of Elementary and Secondary Education:</u>		
Adult Education Basic Grants to States	84.002	2,222
Title I Grants to Local Educational Agencies	84.010	1,317,790
Special Education Grants to States (IDEA, Part B)	84.027	1,279,941
Career and Technical Education- Basic Grants to States	84.048	60,738
Twenty-First Century Community Learning Centers	84.287	63,888
Charter Schools Assistance/Distributions	84.282	241,243
Education Technology State Grants	84.318	1,499
English Language Acquisition Grants	84.365	78,744
Improving Teacher Quality State Grants	84.367	404,082
ARRA - School Improvement Grant, Recovery Act	84.388	352,084
ARRA - State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants, Recovery Act	84.395	180,829
<u>Passed through State Department of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	121,690
		<hr/>
TOTAL EDUCATION		4,104,750

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA 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	14,706
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	62,304
<u>Passed through Executive Office of Health and Human Services:</u>		
Strengthening Public Health Infrastructure	93.507	60,992
National Bioterrorism Hospital Preparedness	93.889	<u>2,000</u>
TOTAL HEALTH & HUMAN SERVICES		<u>140,002</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>17,077</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:		
<u>Passed through Mass Emergency Management Agency:</u>		
Disaster Grants- Public Assistance (Presidentially Declared Disasters)	97.036	26,818
<u>Passed through the State Seaport Advisory Group:</u>		
Port Security Grant	97.056	52,538
<u>Passed through the State Department of Fire Services:</u>		
State Homeland Security Grant Program	97.067	<u>496</u>
TOTAL HOMELAND SECURITY		<u>79,852</u>
TOTAL		<u>\$ 12,625,235</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. 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
Employment Service Cluster	
Employment Service/Wagner Peyser Funded Activities	17.207
Disabled Veterans' Outreach Program (DVOP)	17.801
Local Veterans' Employment Representative Program	17.804
Workforce Investment Act (WIA) Cluster	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Worker Formula Grants	17.278
Special Education Cluster (IDEA)	
Special Education - Grants to States (IDEA Part B)	84.027
Special Education - Preschool Grants	84.173
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 unmodified 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 for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.
5. The auditors’ report on compliance for the major federal award programs for the City of Salem, Massachusetts, expresses an unmodified 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 Number</u>
Community Development Block Grant	14.218
Highway Safety and Planning Grant	20.205
ARRA – School Improvement Grant, Recovery Act	84.388
ARRA – Race to the Top Incentive Grants, Recovery Act	84.395

8. The threshold for distinguishing Types A and B programs was \$378,757.
9. The City of Salem, Massachusetts, was 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

None

E. Prior Audit 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

2012-001 *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.

Status: Resolved. The school has implemented procedures to ensure reports are submitted in a timely manner.