

CITY OF SOMERVILLE, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

YEAR ENDED JUNE 30, 2014

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YEAR ENDED JUNE 30, 2014

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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 Board of Aldermen
City of Somerville, Massachusetts

We have audited, in accordance with the 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 Somerville, Massachusetts, as of and for the year ended June 30, 2014, (except for the Somerville Contributory Retirement System which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the City of Somerville, Massachusetts' basic financial statements, and have issued our report thereon dated December 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Somerville, 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 Somerville, 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 Somerville, Massachusetts' 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 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

December 18, 2014



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

Independent Auditor's Report

To the Honorable Mayor and Board of Aldermen
City of Somerville, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited the City of Somerville, 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 Somerville's major federal programs for the year ended June 30, 2014. The City of Somerville, Massachusetts' 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 Somerville, 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 Somerville, Massachusetts' 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 of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Somerville, Massachusetts, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to

these matters.

The City of Somerville, Massachusetts' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Somerville, Massachusetts' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

This report is replacing a previously issued report due to the underreporting of Homeland Security Grant Program - CFDA# 97.067 expenditures. As a result the program is now being reported as a major program.

Report on Internal Control Over Compliance

Management of the City of Somerville, Massachusetts, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Somerville, Massachusetts' internal control over compliance with the types of requirements that could have a direct and material effect on each 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 Somerville'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 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 Somerville, Massachusetts, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Somerville, Massachusetts' basic financial statements.

We issued our report thereon dated December 18, 2014, 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 as a whole.

Powers + Sullivan, LLC

April 27, 2015, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 18, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through Massachusetts Department of Elementary and Secondary Education:</u>		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	\$ 205,423
Cash Assistance:		
School Breakfast Program	10.553	298,794
National School Lunch Program	10.555	1,420,745
Summer Food Service Program for Children	10.559	182,247
Farm to School Grant Program	10.575	19,750
Fresh Fruit and Vegetable Program	10.582	88,912
		<hr/>
TOTAL DEPARTMENT OF AGRICULTURE		2,215,871
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Direct Programs:</u>		
Community Development Block Grants/Entitlement Grants	14.218	3,510,141
Urban Development Action Grants	14.221	1,059
Emergency Shelter Grants Program	14.231	245,847
HOME Investment Partnerships Program	14.239	213,435
Sustainable Communities Regional Planning Grant Program	14.703	133,252
Lead Hazard Reduction Demonstration Grant Program	14.905	517,656
Lead and Healthy Homes Technical Studies Grants	14.906	61,967
		<hr/>
TOTAL HOUSING AND URBAN DEVELOPMENT		4,683,357
U.S. DEPARTMENT OF JUSTICE:		
<u>Direct Programs</u>		
Bulletproof Vest Partnership Program	16.607	12,344
Edward Byrne Memorial Justice Assistance Grant Program	16.738	94,629
		<hr/>
TOTAL JUSTICE		106,973
U.S. DEPARTMENT OF TRANSPORTATION:		
<u>Passed through Metropolitan Area Planning Council:</u>		
Federal Transit - Capital Investment Grants	20.500	109,707
<u>Passed through the Office of the Secretary of Public Safety:</u>		
State and Community Highway Safety	20.600	66,287
		<hr/>
TOTAL TRANSPORTATION		175,994
NATIONAL ENDOWMENT FOR THE ARTS		
<u>Direct Program:</u>		
Promotion of the Arts-Partnership Agreements	45.025	2,556
		<hr/>
U.S. DEPARTMENT OF VETERAN AFFAIRS:		
<u>Passed through the State Office of Disabilities and Community Services:</u>		
Vocational Rehabilitation for Disabled Veterans	64.116	80
		<hr/>
U.S. ENVIRONMENTAL PROTECTION AGENCY:		
<u>Direct Program:</u>		
Environmental Protection Agency Water Quality	66.818	65,486
		<hr/>

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

U.S. DEPARTMENT OF ENERGY:

Direct Program:

ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	<u>60,978</u>
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U.S. DEPARTMENT OF EDUCATION:

Passed through Massachusetts Department Elementary and Secondary Education:

Adult Education - Basic Grants to States	84.002	270,002
Title I Grants to Local Educational Agencies	84.010	1,352,557
Special Education-Grants to States	84.027	1,606,440
Career and Technical Education-Basic Grants to States	84.048	76,946
Twenty-First Century Community Learning Centers	84.287	246,182
High School Graduate Initiative	84.360	62,414
English Language Acquisition Grants	84.365	138,716
Improving Teacher Quality State Grants	84.367	520,995
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants	84.395	293,327
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Early Learning Challenge	84.412	94,071

Passed through State Department of Early Education and Care

Special Education-Preschool Grants	84.173	<u>63,766</u>
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TOTAL EDUCATION

4,725,416

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

Passed through Massachusetts Executive Office of Health and Human Services:

Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	6,929
Food and Drug Administration Research	93.103	443
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	15,603
PPHF: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants	93.531	87,714
Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>230,297</u>

TOTAL HEALTH AND HUMAN SERVICES

340,986

U.S. DEPARTMENT OF HOMELAND SECURITY

Passed through Massachusetts Emergency Management Agency:

Emergency Management Performance Grants	97.042	22,026
Assistance to Firefighters Grant	97.044	213,165
Disaster Grants - Public Assistance	97.036	264,096
Homeland Security Grant Program	97.067	1,299

Passed through the City of Boston, Massachusetts:

Homeland Security Grant Program	97.067	<u>483,703</u>
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TOTAL HOMELAND SECURITY

984,289

TOTAL

\$ 13,361,986

See notes to schedule of expenditures of federal awards.

(Concluded)

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 Somerville, 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 Somerville, Massachusetts, are set forth below:

(a) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.

(b) Cash Assistance - School Breakfast and Lunch Program - Program expenditures represent federal reimbursement for meals provided during the year.

(c) Non-Cash Assistance (Commodities) - School Breakfast and Lunch Program - Program expenditures represent the value of donated foods received during the year.

(d) Homeland Security Grant Program – Program expenditures represent financial and non-financial federal assistance passed through from the City of Boston.

(e) Public Assistance Grants – Program expenditures represent federal reimbursement for eligible disaster assistance costs.

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
 Special Education Cluster	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173

A. Summary of Auditor’s Results

1. The auditor’s report expresses an unmodified opinion on the financial statements of the City of Somerville, 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 financial statements of the City of Somerville, 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 Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.
5. The auditor’s report on compliance for the major federal award programs for the City of Somerville, Massachusetts, expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with OMB A-133 are reported in the schedule of findings and questioned costs.

7. The programs tested as major grants include:

<u>Program Title</u>	<u>CFDA Number</u>
Community Development Block Grants/Entitlement Grants	14.218
Title 1 Grants to Local Educational Agencies	84.010
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
ARRA State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants	84.395
Homeland Security Grant Program	97.067

8. The threshold for distinguishing Types A and B programs was \$400,860.
9. The City of Somerville, Massachusetts, was determined to be a low-risk auditee.

B. Findings-Financial Statements Audit

None

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

2014-001: U.S. DEPARTMENT OF HOMELAND SECURITY
Passed through the City of Boston, Massachusetts

Homeland Security Grant Program 97.067

Condition and Criteria: The City failed to identify and report \$483,703 in federal financial and non-financial assistance received from another community during 2014 on the original Schedule of Expenditures of Federal Awards (SEFA) that was previously issued. The receipt of federally funded equipment, materials or supplies that are paid for by another agency are considered to be non-financial assistance that is required to be reported on the SEFA.

Cause: The City's system of internal controls requires departments to report the receipt and expenditure of all federal awards, including non-financial assistance, to the Auditor's Office to ensure that they are reported on the SEFA. In this instance, a department failed to notify the Auditor's Office of the receipt of non-financial federal assistance. This transaction was not identified through the City's general ledger because there was no cash disbursement associated with the transaction.

Effect: The City failed to identify and report the non-financial federal assistance received under the Homeland Security Grant program.

Questioned Costs: None

Auditor's Recommendation: We recommend that the City strengthen controls over the preparation of the SEFA to ensure that all non-financial federal assistance is identified through a review of the City's general ledger. This can be accomplished through additional training with departments to ensure that all non-financial assistance is reported to the City Auditor's office on a timely basis.

Management's Response: The City will implement procedures to assure that all cash and non-cash federal awards have been properly accounted for and reported within the SEFA. We will also contact the City of Boston each fiscal year and request documentation of federal funds spent on our behalf.

D. Prior Summary Schedule of Audit Findings

None