

TOWN OF WATERTOWN, MASSACHUSETTS

Independent Auditors' Reports Pursuant
to Governmental Auditing Standards
and The Single Audit Act Amendments of 1996

For the 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 Town Manager and Town Council
Town of Watertown, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Watertown, Massachusetts, as of and for the year ended June 30, 2009, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 8, 2010. 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 Town's 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 Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's 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 Town's 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 Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

Additional Offices:

Greenfield, MA • Eibsworth, ME • Nashua, NH • Manchester, NH

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 Town's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of the section and would not necessarily identify all deficiencies in internal control that might be 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 Town's 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*.

We noted certain matters that we reported to management of the Town of Watertown, in a separate letter dated November 8, 2010.

This report is intended solely for the information and use of management, Town Council, others within the entity, 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.

Melanson, Heath + Company P.C.

Andover, Massachusetts
November 8, 2010



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Town Manager and Town Council
Town of Watertown, Massachusetts

Compliance

We have audited the compliance of the Town of Watertown, 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 year ended June 30, 2009. The Town'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 grant agreements applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town'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 Town'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 of the Town's compliance with those requirements.

As described in items 09-1 and 09-2 in the accompanying schedule of findings and questioned costs, the Town did not comply with certain requirements that are applicable to its Title I and Special Education Cluster grants. Compliance with such

requirements is necessary, in our opinion, for the Town to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Town'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 Town's internal control over compliance.

A *control deficiency* in a Town'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 Town'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 Town'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 Town's internal control.

Our consideration of 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. 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 the Town of Watertown as of and for the year ended June 30, 2009,

and have issued our report thereon dated November 8, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Town's 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, Town Council, others within the entity, 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.

Melanson, Heath + Company P.C.

Andover, Massachusetts
November 8, 2010

TOWN OF WATERTOWN, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor/ <u>Program Name</u>	Federal Catalogue <u>Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed Through the Massachusetts Department of Elementary and Secondary Education School Lunch Program	10.555	\$ <u>266,492</u>
Total Department of Agriculture		266,492
<u>U.S. Department of Housing and Urban Development</u>		
Passed Through Massachusetts Department of Housing and Community Development CDBG - Small Cities	14.228	<u>2,993</u>
Total Department of Housing and Urban Development		2,993
<u>U.S. Department of Education</u>		
Passed Through the Massachusetts Department of Elementary and Secondary Education		
Title I ECIA, P.L. 97-35	84.010	392,251
Instructional Personnel - Title VIB	84.027	756,728
Access- Professional Development	84.027	17,185
Special Education Corrective Action	84.027	6,000
Occupational Education - Vocational Skills	84.048	47,820
LEP Support	84.048	52,127
Title V	84.151	1,544
Governors Alliance Against Drugs	84.186	12,683
Teaching American History	84.215	6,110
21st Century Community Learning	84.287	40,789
Title II - Teacher Quality	84.318	130,895
Enhanced Education Through Technology	84.318	2,700
ARRA State Stabilization Funds	84.394	366,634
Passed Through Massachusetts Department of Early Education and Care P.L. 99-457 Early Childhood	84.173	<u>49,078</u>
Total Department of Education		1,882,544
<u>U.S. Department of Homeland Security</u>		
Fire Emergency Preparedness	97.044	<u>1,789</u>
Total Department of Homeland Security		<u>1,789</u>
Grand Total		<u>\$ 2,153,818</u>

See Auditors' report on Schedule of Federal Awards.

This schedule is prepared on the modified accrual basis of accounting.

State identifying numbers were not available for the pass-through grants listed above.

TOWN OF WATERTOWN, MASSACHUSETTS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs:

Title I and Special Education Cluster Grants
ARRA State Stabilization Funds

Qualified
Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.027/84.173	Special Education Cluster Grants
84.394	ARRA State Stabilization Funds

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
09-1	Special Education Cluster Grants 84.027/84.173	<u>Maintain Time and Effort Distribution Records (Compliance Finding)</u> <u>Criteria:</u> OMB Circular A-87, Attach. B, paragraph 8.h.3 requires all employees paid in full from federal grant funds to furnish semi-annual certifications that they have been engaged solely in activities supported by the grant. These certifications must be signed by the employee or supervisor with knowledge of the work performed. In addition, OMB Circular A-87, Attach. B, Paragraph 8.h.4 requires employees to document the portion of time worked on the grant and the portion of time worked in areas not related to the grant. Circular A-87 also requires that these time and effort distribution records must (1) be done after the fact (not estimated or budgeted), (2) account for the total activities for which the employee is paid, (3) be prepared at least monthly and coincide with one or more pay periods, and (4) be signed by the employee.	\$ 83,323
	Title I 84.010	<u>Condition:</u> We tested a sample of 7 payroll disbursements funded by Title I in order to determine if adequate time and effort records were maintained. As a result of our testing, it was determined that 5 of the employees tested did not maintain adequate time and effort documentation. Specifically, three employees did not document time on the Title I program, and two did not sign their time and effort certification.	\$ 143,505

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<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
		<p>We tested a sample of 7 payroll disbursements for the SPED cluster grants. Our audit found that while the School Department maintained certain time and effort documentation, it was done for the entire year and should have been semi-annually or monthly. Also, one employee completed time and effort; however, the documentation did not denote percentage of time spent on SPED grants. In addition, time and effort documentation could not be located for one employee.</p> <p><u>Effect:</u> Certain time and effort documentation did not meet Federal requirements.</p> <p><u>Recommendation:</u> We recommend the School Department maintain the required certifications for all employees who are charged to federal grant programs. This will ensure the Town's compliance with the documentation of time and effort requirements of OMB Circular A-87.</p> <p><u>Town's Response:</u> The Watertown Public School Department has implemented the following procedure in its personnel/payroll activities. This is done twice each school year; once in January and once in June.</p> <p>Employees paid in full from federal grant funds sign a statement acknowledging that they have been engaged solely in activities supported by the grant.</p> <p>Employees paid partially from a grant maintain a record of the portion of times worked on the grant and the portion of time worked in areas not related to the grant. This record is signed by the employee and submitted after the last pay period each month.</p>	

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<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
09-2	Special Education Cluster Grants 84.027/84.173 Title I 84.010	<u>Ensure Final Financial Reports are Filed when Required</u> <u>Criteria:</u> The MA Department of Elementary and Secondary Education requires Final Financial Reports (FR-1) to be completed and submitted within 60 days of the end of the grant. <u>Condition:</u> During our audit of the Final Financial Reports (FR-1) for the Title I and Special Education Cluster grants, we determined that these reports were not completed and submitted within 60 days of the grant year end. The grant year end was August 31, 2009, and therefore, the FR-1 reports should have been submitted no later than October 31, 2009. Watertown Public School Department submitted the Title I and Special Education Cluster FR-1 reports in December 2009. <u>Effect:</u> Certain State report filing deadline requirements were not met. No questioned cost was raised, since this was an administrative issue. <u>Recommendation:</u> We recommend Watertown Public School Department establish procedures to ensure that Final Financial Reports are completed and submitted to the Department of Elementary and Secondary Education within the required time frame. <u>Town's Response:</u> The Watertown Public School Department instituted a procedure to stop purchasing on grants 60 days before the grant ends in order to make sure that all obligations have been paid in a timely fashion. All FY10 reports were filed in a timely manner.	N/A

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>
08-1	Title I 84.010	<u>Request Funds Based on Actual Expenditures and Immediate Needs (Significant Deficiency)</u> Finding 08-1 was resolved in the current year.
08-2	Special Education Cluster Grants 84.027/84.173	<u>Maintain Employees Time and Effort Records</u> Finding 08-2 was not resolved in the current year and is repeated as item 09-1.
08-3	Special Education Cluster Grants 84.027/84.173	<u>Ensure Final Financial Reports are Filed when Required</u> Finding 08-3 was not resolved in the current year and is repeated as item 09-2.
	Title I 84.010	