

***DRAFT***

*TOWN OF WAREHAM, MASSACHUSETTS*

*REPORTS ON FEDERAL AWARD PROGRAMS*

*FISCAL YEAR ENDED JUNE 30, 2010*



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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 Board of Selectmen  
Town of Wareham, 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 Wareham, Massachusetts, as of and for the year ended June 30, 2010, which collectively comprise the Town of Wareham, Massachusetts' basic financial statements and have issued our report thereon dated March 25, 2011. The report was qualified due to the fact that we were unable to obtain sufficient audit evidence to satisfy ourselves to the sufficiency of overall cash controls and cash reconciliation procedures between the Treasurer and Accountant's Office. The Town's control activities for its accounting system were insufficient and did not completely reconcile the cash balances which resulted in a charge to the general fund in the amount of \$919,234. Except as discussed in the preceding sentences, 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 of Wareham, 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 Town of Wareham, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Wareham, Massachusetts' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described as 2010-01 in the accompanying schedule of findings and questioned costs to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Wareham, 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 these 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 other matters that we reported to management of the Town of Wareham, Massachusetts in a separate letter dated March 25, 2011.

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

# **DRAFT**

Wakefield, Massachusetts  
March 25, 2011

**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 Board of Selectmen  
Town of Wareham, Massachusetts

**Compliance**

We have audited the compliance of the Town of Wareham, Massachusetts, 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 Town of Wareham's major federal programs for the fiscal year ended June 30, 2010. The Town of Wareham, Massachusetts' 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 Town of Wareham's management. Our responsibility is to express an opinion on the Town of Wareham, Massachusetts' 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 of Wareham, 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. Our audit does not provide a legal determination on the Town of Wareham, Massachusetts' compliance with those requirements.

In our opinion, the Town of Wareham, 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, 2010.

**Internal Control Over Compliance**

Management of the Town of Wareham, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the requirements that of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Wareham, Massachusetts' 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 of Wareham, Massachusetts' internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-02 to be a material weakness.

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

#### **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 Wareham, Massachusetts, as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated March 25, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Town of Wareham, 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, Board of Selectmen, 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.

# **DRAFT**

March 25, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
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	44,778
Cash Assistance:		
School Breakfast Program	10.553	178,913
National School Lunch Program	10.555	539,735
Special Milk Program for Children	10.556	2,226
Summer Food Service Program for Children	10.559	33,993
ARRA - USDA Child Nutrition Equipment Grants	10.579	5,168
TOTAL U.S. DEPARTMENT OF AGRICULTURE		804,813
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Direct Programs:</u>		
Community Development Block Grants-Entitlement Grants	14.218	775,401
U.S. DEPARTMENT OF CRIMINAL JUSTICE:		
<u>Direct Award:</u>		
Bulletproof Vest Partnership Program	16.607	1,490
<u>Passed through State Department of Fish, Wild Life and Environmental Law Enforcement:</u>		
Clean Vessel Act	15.616	4,767
<u>Passed through Executive Office of Public Safety:</u>		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	50,577
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.803	55,000
TOTAL U.S. DEPARTMENT OF CRIMINAL JUSTICE		111,834
U.S. ENVIRONMENTAL PROTECTION AGENCY:		
<u>Passed through Massachusetts Water Abatement Trust</u>		
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	1,491,680
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through Massachusetts Department of Elementary and Secondary Education:</u>		
Title I Grants to Local Educational Agencies	84.010	677,542
Special Education Grants to States	84.027	789,947
Safe and Drug Free Schools and Communities State Grants	84.186	16,005
Education for Homeless Children and Youth	84.196	2,827
Twenty-First Century Community Learning Centers	84.287	216,628
Education Technology State Grant	84.318	37,183
Mathematics and Science Partnerships	84.366	450
Improving Teacher Quality State Grants	84.367	177,875
Statewide Data Systems	84.372	181
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	225,899
ARRA - Special Education Grants to States, Recovery act	84.391	256,649
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	360,868
<u>Passed through State Department of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	31,539
ARRA - Special Education Preschool Grants, Recovery Act	84.392	15,285
TOTAL U.S. DEPARTMENT OF EDUCATION		2,808,878
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:		
<u>Passed through State Department of Education:</u>		
Learn and Serve America School and Community Based Programs	94.004	15,314
U.S. DEPARTMENT OF HOMELAND SECURITY:		
<u>Passed through the Massachusetts Emergency Management Agency</u>		
Port Security Grant	97.056	168,750
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		168,750
TOTAL FEDERAL AWARD EXPENDITURES		\$ 6,176,670

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 Town of Wareham, 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 Town of Wareham, 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, grant expenditures are recognized when the related liabilities are incurred.

(b) National School Lunch 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 Number</u>
<b>Child Nutrition Cluster</b>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
<b>Title I, Part A Cluster</b>	
Title I Grants to Local Educational Agencies	84.010
ARRA – Title I Grants to Local Educational Agencies, Recovery Act	84.389
<b>Special Education Cluster</b>	
Special Education Grants to States	84.027
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

**A. Summary of Auditors' Results**

1. The auditors' report expresses a qualified opinion on the basic financial statements of the Town of Wareham, Massachusetts.
2. Material weaknesses 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 Town of Wareham, 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 Town of Wareham, Massachusetts, expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Town of Wareham, Massachusetts.
7. The programs tested as major grants include:

<u>Program Title</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
Capitalization Grants for Clean Water State Revolving Funds	66.458
Title 1 Grants to Local Educational Agencies	84.010
ARRA – Title I Grants to Local Educational Agencies, Recovery Act	84.389
Special Education Grants to States	84.027
ARRA – Special Education – Grants to States, Recovery Act	84.391
Special Education Preschool Grants	84.173
ARRA – Special Education – Preschool Grants, Recovery Act	84.392
ARRA - State Fiscal Stabilization Fund – Education State Grants, Recovery Act	84.394

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Wareham, Massachusetts, was determined to be a high-risk auditee.

**B. Findings-Financial Statements Audit****2010-01: Material Weakness**

*Condition and Criteria:* The following deficiencies exist within the Town's system of internal control:

- The Town Accountant was unable to reconcile the balances of the general ledger control accounts to the subsidiary ledgers. We noted numerous link issues within the general ledger, journal entries being posted directly to the control accounts and many funds whose reporting was inadequate and unreliable due to linking issues between account types and funds which causes the reporting to be undependable to make informed management decisions on. This was an issue in fiscal years 2009 and 2010, we anticipate with the new chart of accounts implemented in fiscal year 2011 that all linking issues have been addressed.
- As part of the analytical review of the Town's 2010 general ledger we noted that revenues, expenditures and fund balances of various special revenue accounts were adjusted via a journal entry to tie into support maintained by various other departments. First, a journal entry with no support which simply alters the balance does not constitute a reconciliation process, second fiscal year 2011 activity reports were used to make some of the journal entries. This should have immediately thrown up a red flag to the accounting personnel responsible for recording the journal entries in question. As a result of our uncovering this practice, we assisted the Town in conducting a complete review and reconciliation of the records maintained at the department level to the activity and balances maintained in the general ledger. This process has uncovered over 40 correcting entries that will be necessary to post into the general ledger and it is clear that no formal or timely reconciliation procedures are occurring between the various departments and the Town Accountant's Office.
- We observed an inordinate amount of unsupported journal entries being posted to the Town's general ledger. All journal entries need proper approval, explanation and supporting documentation. Also, journal entries should not be used as a recurring means of recording activity in the general ledger, they should be minimal and used for isolated instances that require an adjustment to or correction of a previously recorded transaction. If the Accounting Office finds that journal entries are needed frequently, an immediate review of the policies and procedures surrounding the transaction type in question should be performed to isolate where the deviation from prescribed policies and procedures is occurring and what the correct fix should be.
- Receivable reconciliations were not performed between the Collector's records and the general ledger during fiscal year 2010. Reconciling both the activity and the ending balances of the accounts receivable is an integral control procedure over the most significant revenue sources of the Town. This omission of reconciliations does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the course of their normal duties. In simpler terms, the Town's ability to obtain the objectives of a proper system of internal controls is inhibited. Furthermore, the Town has lost the ability to ensure that key assets and revenues sources are adequately safeguarded. We observed numerous journal entries being used to bring the general ledger balances in line with the Collector's balances, these entries were unsupported and do not constitute a reconciliation.
- Cash reconciliations between the Treasurer's records and the general ledger did not occur within fiscal year 2010. Internal control procedures should be designed in a manner that ensures all activity is recorded in the cash book prepared by the Treasurer as the transactions occur. At the same time as the activity is being posted to the cash book a corresponding posting would be made to the general ledger maintained by the Town Accountant. The cash book balance and the general ledger cash balance should

match at all times. At the end of each month, the Treasurer would complete the reconciliation between the cash book and bank statements. The Treasurer and Accountant would then reconcile the cash book to the general ledger balance. There is a material variance between the Treasurer's records and the general ledger as of June 30, 2010.

- Management was not able to provide an accurate reconciliation between the authorized town meeting votes, the tax recap, budget transfers and the budget recorded within the general ledger. The Town is responsible for monitoring the approved budget and assuring that funds are available to cover the appropriations and that the level of spending is in line with the amounts authorized at town meeting. The lack of procedures in place to reconcile the approved votes to the tax recap and the general ledger can lead to a situation in which line items are overspent, unallowable costs are paid, and department heads do not have accurate information to monitor current operations.
- The Town does not have proper controls or reconciliation procedures in place to account for betterments. During fiscal year 2010, the Town hired a group of college students to assist in developing a comprehensive listing of all betterment receivables outstanding as of June 30, 2010. As a result of this project, the records maintained by all involved departments were adjusted however no formal reconciliation procedures were implemented or documented.
- The Town established a Self-Insured Health Insurance Trust Internal Service Fund in FY2005 to account for all of the Town's health and dental claims activities. Although we assisted the Town with a complete audit of this fund during fiscal year 2009, we noted that numerous corrections to the fund were necessary as of June 30, 2010. We continue to recommend that management establish separate accounts within the general ledger for all of the revenue and expense types and reconcile the activity posted to this fund on a monthly basis.

Proper internal controls require that procedures be in place to provide reasonable assurance that 1) assets are properly safeguarded; 2) that transactions are executed in accordance with management's authorization and 3) that transactions are recorded properly in the general and subsidiary ledgers.

*Cause:* Lack of procedures in place to obtain the objectives of a system of internal control as defined above.

*Effect:* The Town is unable to provide reasonable assurance that assets are properly safeguarded and transactions are executed in accordance with management's authorization and recorded timely and properly in the general and subsidiary ledgers.

*Auditors' Recommendation:* We recommend that the Town implement a system of internal control policies and procedures to insure that all of the above noted material weaknesses are corrected in a timely manner.

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

**2010-02: Material Weakness**

*Condition and Criteria:* As described in the above mentioned financial statement material weakness section, the Town does not have sufficient internal controls in place to assure that all activity recorded within the general ledger is complete and accurate, as well as, the fact that no reconciliation procedures are in place related to all major activities of the Town.

*Cause:* The Town does not have procedures for reconciling grant activity recorded in the general ledger with records maintained by Town's departments and reported to granting agencies.

*Effect:* The Town is not able to produce a complete and accurate schedule of expenditures of federal award programs on its own.

*Auditors' Recommendation:* We recommend that Town implement procedures to reconcile all grant activity with the respective departments on a monthly basis and design procedures to account for all federal grant expenditures to allow for preparation of a complete and accurate schedule of expenditures of federal award programs.

**D. Prior Year Findings and Questioned Costs**

None





