

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, 2011

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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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Watertown, Massachusetts, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 28, 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 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 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.

Additional Offices:

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of the 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 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, non-compliance 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 in a separate letter dated March 28, 2012.

This report is intended solely for the information and use of management, the 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
March 28, 2012



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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 Town Manager and Town Council
Town of Watertown, Massachusetts

Compliance

We have audited the Town of Watertown, 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 its major federal programs for the year ended June 30, 2011. 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 grants 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 item 11-1 in the accompanying schedule of findings and questioned costs, the Town did not comply with requirements regarding time and effort certification that could have a direct and material effect on its Title I ARRA, Special Education, and School Lunch programs. Compliance with such requirements is necessary, in our opinion, for the Town to comply with the requirements applicable to that program.

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants 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 to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Town'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 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, the aggregate discretely presented component units, each major fund,

and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2011, and have issued our report thereon dated March 28, 2012. 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.

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the 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
March 28, 2012

TOWN OF WATERTOWN, MASSACHUSETTS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program Name	Federal Catalogue Number	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed Through the Massachusetts Department of Elementary and Secondary Education		
School Breakfast Program	10.553	\$ 41,970
School Lunch Program	10.555	<u>265,125</u>
Total U.S. Department of Agriculture		307,095
<u>U.S. Department of Housing and Urban Development</u>		
Passed Through Massachusetts Department of Housing and Community Development		
CDBG - Small Cities	14.228	417
Economic Study Grant	14.251	<u>24,650</u>
Total U.S. Department of Housing and Urban Development		25,067
<u>U.S. Department of Education</u>		
Direct		
Teaching American History	84.215	6,504
PEP Grant	84.215	129,983
Passed Through the Massachusetts Department of Elementary and Secondary Education		
Title I	84.010	360,466
AA LEP Support	84.010	21,256
Special Education - Title VI B	84.027	778,304
Occupational Education - Vocational Skills	84.048	28,274
Governors Alliance Against Drugs	84.186	4,990
Title II - Teacher Quality	84.318	86,686
LEP Support	84.365	55,528
Title I - ARRA	84.389	108,422
IDEA - ARRA	84.392	351,752
State Fiscal Stabilization Fund	84.394	15,443
Educational Jobs	84.410	122,796
WTOWN Healthy Youth Program	84.184A	231,849
Passed Through Massachusetts Department of Early Education and Care		
Early Childhood	84.173	47,054
Curriculum, Instructions, and Assessment Alignment	84.173	17,721
Early Literacy Gap	84.173	9,955
Early Childhood - IDEA - ARRA	84.392	12,833
Passed Through Massachusetts Executive Office of Public Safety and Security		
State Fiscal Stabilization Fund - Government Services - ARRA	84.397A	<u>237,706</u>
Total U.S. Department of Education		<u>2,627,522</u>
Total Federal Expenditures		<u>\$ 2,959,684</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, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? 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 deficiency(ies) identified? yes none reported

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

School Breakfast and Lunch Program	Qualified
Title I Cluster	Qualified (ARRA program only)
Special Education Cluster	Qualified

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>
10.553/10.555	School Breakfast and Lunch Program
84.010/84.389	Title I Cluster
84.027/84.173/84.392/84.394	Special Education Cluster

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>
11-1	Title I-ARRA 84.389	<u>Maintain Employee's Time and Effort Records</u>	\$ 101,871
	Special Education Cluster 84.027/84.392	<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 1-87, Attach. B, Paragraph 8.h.4 requires employees partially charged to federal grants 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-98 also requires that the 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.	\$0
	School Breakfast and Lunch Programs 10.553/10.555		\$0
		<u>Condition:</u> During our audit, we tested a sample of 3 Title I-ARRA, 3 Special Education, 3 IDEA ARRA, and 12 School Lunch payroll disbursements in order to determine if adequate time and effort records were maintained. As a result of our testing, it was determined that neither semi-annual nor monthly time and effort documentation was maintained for the 3 Title I-ARRA employees. It was also determined that of the 12 School Lunch employees tested, that 1 employee maintained a Time and Effort certification record, but the record was done on an annual and not semi-annual basis.	

(continued)

(continued)

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
		<p>Additionally, of the 3 Special Education and 3 IDEA ARRA employees tested, it was determined that 2 Special Education and 2 IDEA ARRA employees maintained Time and Effort Certification records but the records were done on an annual and not semi-annual basis.</p> <p><u>Effect:</u> Time and effort documentation did not meet federal requirements.</p> <p><u>Recommendation:</u> We recommend that semi-annual certifications be maintained for all employees being paid fully by grant funds.</p> <p><u>Town's response:</u> The Town is developing, implementing and will enforce a procedure whereby all employees whose salaries are funded (either full or partial) through federal grants will be properly documented.</p>	

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	
10-1	Title I 84.010/84.389	<u>Maintain Employee's Time and Effort Records</u> This finding was resolved in the current year for Title I-84.010 program, however, was unresolved for the Title I-ARRA 84.389, and is repeated as finding 11-1.	
	Special Education Cluster 84.027/84.173/ 84.392	This finding was resolved in the current year for the Early Childhood-84.173 program, however, was unresolved for Special Education 84.027 and IDEA ARRA 84.392 and is repeated as finding 11-1.	
	Physical Education Program 84.215	This finding was resolved in the current year.	