

TOWN OF NEEDHAM, 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 Board of Selectmen  
Town of Needham, 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 Needham, 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 January 14, 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.

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 Needham, in a separate letter dated January 14, 2010.

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.

*Melanson, Heath + Company P.C.*

Andover, Massachusetts  
January 14, 2010

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 Board of Selectmen  
Town of Needham, Massachusetts

Compliance

We have audited the compliance of the Town of Needham, 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.

In our opinion, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Town's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in the 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 entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 09-1 to be a significant deficiency.

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 entity's internal control. The significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs is not considered to be a material weakness.

## Schedule of Expenditure 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 Needham, Massachusetts as of and for the year ended June 30, 2009, and have issued our report thereon dated January 14, 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.

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

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.

*Melanson, Heath + Company P.C.*

Andover, Massachusetts  
March 18, 2010

TOWN OF NEEDHAM, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2009

Federal Grantor/ Pass-Through Grantor/ <u>Program Name</u>	<u>Federal Catalogue Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed Through Massachusetts Department of Elementary and Secondary Education School Lunch Program	10.555	\$ <u>176,861</u>
Total Department of Agriculture		176,861
<u>U.S. Department of Education</u>		
Passed Through State Department of Elementary and Secondary Education		
Title I ECIAA, P.L. 97-35	84.010	139,187
Title VIB P.L. 94-142 Handicapped Assistance	84.027	1,070,745
Special Education - Program Improvement	84.027	24,184
Innovative Program	84.151	3,921
Drug Free Schools	84.186	13,032
Enhanced Education Thru Technology	84.318	1,877
Title II Teacher Quality	84.367	142,150
ARRA - State Stabilization Funds	84.394	643,484
Passed Through State Department of Early Education and Care P.L. 99-457 Early Childhood	84.173	<u>33,311</u>
Total Department of Education		2,071,891
<u>U.S. Department of Health and Human Services</u>		
Passed Through National Association of County and City Health Officials		
Medical Reserve Corps Small Grant Program	93.008	484
<u>U.S. Department of Homeland Security</u>		
Assistance to Firefighters	97.044	<u>30,980</u>
Total Department of Homeland Security		<u>30,980</u>
Grand Total		<u>\$ 2,280,216</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 NEEDHAM, 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 weakness(es) 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 weakness(es)?  yes  none reported

Type of auditors' report issued on compliance for major programs: 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>
84.027/84.173 84.394	Special Education Cluster 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 SPED 94-142 84.027	<u>Avoid Journal Entries (Significant Deficiency)</u>  <u>Criteria:</u> Federal and state regulations require grant recipients have policies and procedures that provide reasonable assurance reports of awards submitted to the federal awarding agencies or pass-through entities are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.  <u>Condition:</u> During our testing, we noted a significant number of journal entries were made to the Special Education 94-142 grant after both the fiscal and grant years had ended. The adjustments resulted in costs that were originally charged to one grant year, to be transferred to the following grant year. While the transferred costs appear to be related to the appropriate grant year, the current procedure for processing transactions results in the need for too many journal entries. Typically, journal entries to allocate expenditures result when an account is originally charged in error.  <u>Effect:</u> Federal and state reports may not be fairly presented in accordance of program requirements.  <u>Recommendation:</u> We continue to recommend that the Town document the reason(s) why these journal entries are needed and develop a course of action to minimize or eliminate journal entries to allocate expenditures.	N/A

(continued)

(continued)

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
		<u>Town's Response:</u> Award letters from the State and Federal Government for Grants are primarily received after the beginning of the grant period. Needham's practice has been not to set up accounts until after receipt of the original award letter. In the future, accounts will be set up, and personnel transferred to the new account before the beginning of the grant and prior to the receipt of the award letter.	

#### SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
08-1	Special Education Cluster SPED 94-142 84.027	<u>Avoid Journal Entries (Significant Deficiency)</u>  Finding 08-1 remains unresolved and is repeated in the current year as modified finding 09-1.	N/A