

**CITY OF PROVIDENCE, RHODE ISLAND**

***Auditor's Reports as Required by OMB Circular A-133  
and  
Government Auditing Standards***

***Year Ended June 30, 2010***

**CITY OF PROVIDENCE, RHODE ISLAND**

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**CITY OF PROVIDENCE, RHODE ISLAND**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

Federal grantor/pass through grantor/program title	CFDA Number	Federal Expenditures (in thousands)
<b>U.S. Department of Housing &amp; Urban Development:</b>		
<b>Direct programs:</b>		
Community Development Block Grant	14.218	\$7,332
Community Development Entitlement Grant	14.228	1,259
Emergency Shelter Grant	14.231	268
Housing Opportunities for Persons with AIDS	14.241	881
HUD - EDI Special Project Grant	14.246	171
Lead Based Paint Hazard Control	14.900	1,265
Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262	559
Home Investment Partnerships Program	14.239	2,823
<b>Total U.S. Department of Housing and Urban Development</b>		<b>14,558</b>
<b>U.S. Department of Health &amp; Human Services</b>		
<b>Passed through the State of Rhode Island, Department of Health &amp; Human Services</b>		
Drug Free Communities Support Program Grants	93.276	64
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	277
<b>Total U.S. Department of Health &amp; Human Services</b>		<b>341</b>
<b>U.S. Department of Commerce</b>		
<b>Passed through the State of Rhode Island, Department of Commerce:</b>		
Economic Development Support for Planning Organizations	11.302	64
<b>Total U.S. Department of Commerce</b>		<b>64</b>
<b>U.S. Department of Environmental Protection:</b>		
<b>Direct Programs:</b>		
Brownsfields Assessment and Cleanup Cooperative Agreement	66.818	72
<b>Total U.S. Department of Transportation</b>		<b>72</b>
<b>U.S. Department of Agriculture:</b>		
<b>Passed through the State of Rhode Island, Department of Education:</b>		
National School Lunch Program	10.555	8,607
National School Breakfast Program	10.553	2,626
ARRA - Kitchen Equipment	10.579	98
Special Milk Program for Children	10.559	657
Summer Food Service Program for Children	10.559	303
Fresh Fruits and Vegetables	10.582	312
<b>Total U.S. Department of Agriculture</b>		<b>12,603</b>

SEE ACCOMPANYING NOTES TO SCHEDULE

(CONTINUED)

**CITY OF PROVIDENCE, RHODE ISLAND**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

Federal grantor/pass through grantor/program title	CFDA Number	Federal Expenditures (in thousands)
<b>U.S. Department of Education:</b>		
<b>Passed through the State of Rhode Island, Department of Education:</b>		
Title I Grants to Local Educational Agencies	84.010	24,053
State Education - Grants to States	84.027	7,130
Vocational Education - Basic Grants to States	84.048	996
Special Education - Preschool Grants	84.173	195
Safe and Drug-Free Schools and Communities State Grants	84.186	364
Teacher Quality Partnership Grants	84.336	174
Reading First State Grant	84.357	711
English Language Acquisition Grants	84.365	448
Improving Teacher Quality State Grants	84.367	4,552
Title I - School Improvement Part G	84.377	212
ARRA - Education for Homeless Youth and Children	84.387	28
ARRA - Title I School Improvement Part G	84.389	7,869
ARRA - IDEA Part B	84.391	4,143
ARRA - IDEA Preschool	84.392	93
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	13,246
<b>Total U.S. Department of Education</b>		<u>64,214</u>
<b>U.S. Department of Labor:</b>		
<b>Direct programs:</b>		
WIA Adult Program	17.258	1,392
WIA Youth Activities	17.259	3,383
WIA Dislocated Workers	17.260	2,451
<b>Total U.S. Department of Labor</b>		<u>7,226</u>
<b>U.S. Department of Transportation:</b>		
<b>Direct Programs:</b>		
Highway Planning and Construction	20.205	76
<b>Total U.S. Department of Transportation</b>		<u>76</u>
<b>U.S. Department of Justice:</b>		
<b>Passed through the State of Rhode Island, Department of Justice:</b>		
Community Capacity Development Office	16.595	109
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants	16.803	1,409
Edward Byrne Memorial Justice Assistance Grant Program	16.738	395
Public Safety Partnership and Community Policing Grants	16.710	498
Anti-Gang Initiative	16.744	37
Community Prosecution and Project Safe Neighborhood	16.609	57
<b>Total U.S. Department of Justice</b>		<u>2,505</u>

SEE ACCOMPANYING NOTES TO SCHEDULE

(CONTINUED)

**CITY OF PROVIDENCE, RHODE ISLAND**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>Federal grantor/pass through grantor/program title</b>	<b>CFDA Number</b>	<b>Federal Expenditures (in thousands)</b>
<b><i>U.S. Department of Homeland Security:</i></b>		
<b><i>Passed through State of Rhode Island, Department of Homeland Security</i></b>		
Urban Areas Security Initiative	97.008	876
National Fire Academy Fellowship Program	97.019	96
Port Security Grant Program	97.056	1,642
FEMA Reimbursement	97.042	393
Metropolitan Medical Response System	97.071	606
State Homeland Security Program (SHSP)	97.073	37
Buffer Zone Protection Program	97.078	100
<b><i>Total U.S. Department of Homeland Security</i></b>		<b><u>3,750</u></b>
<b><i>U.S. Department of Energy:</i></b>		
<b><i>Direct Programs:</i></b>		
Energy Efficiency and Conservation Block Grant Program	81.128	59
<b><i>Total U.S. Department of Transportation</i></b>		<b><u>59</u></b>
<b><i>Total Expenditures of Federal Awards</i></b>		<b><u><u>\$105,468</u></u></b>

SEE ACCOMPANYING NOTES TO SCHEDULE

(CONCLUDED)

CITY OF PROVIDENCE, RHODE ISLAND

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2010**

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**1. General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Providence, Rhode Island. All federal awards received from federal agencies are included on the Schedule of Expenditures of Federal Awards. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**2. Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

**3. Determination of Major Programs**

The determination of major federal financial assistance programs was based upon the overall level of expenditures for all federal programs for the City of Providence, Rhode Island. As such, the threshold for determining Type A and Type B programs is defined as those with program expenditures greater than \$300,000 or 3 percent of total expenditures when the total expenditures are over \$10,000,000. For the fiscal year ended June 30, 2010, the following programs were considered major programs:

LEA Stabilization Grant .....	CFDA # 84.394
National School Lunch Program .....	CFDA # 10.555
National School Breakfast Program .....	CFDA # 10.553
National School Milk Program .....	CFDA # 10.556
Summer Food Service Program .....	CFDA # 10.559
IDEA Part B .....	CFDA # 84.027
ARRA IDEA .....	CFDA # 84.391
IDEA Preschool .....	CFDA # 84.173
ARRA IDEA Preschool .....	CFDA # 84.392
Title I .....	CFDA # 84.010
ARRA Title I .....	CFDA # 84.389
Title II .....	CFDA # 84.367
Community Development Block Grant ...	CFDA # 14.218
WIA Adult Program .....	CFDA # 17.258
WIA Youth Activities .....	CFDA # 17.259
WIA Dislocated Workers .....	CFDA # 17.260

**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 Mayor and  
Members of the City Council  
City of Providence  
Providence, Rhode Island

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 City of Providence, Rhode Island as of and for the year ended June 30, 2010, which collectively comprise the City of Providence, Rhode Island's basic financial statements and have issued our report thereon dated January 31, 2011. 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 City of Providence, Rhode Island'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 City of Providence's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Providence's internal control over financial reporting.

Our consideration of 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 a 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 in the accompanying schedule of findings and questioned costs to be material weaknesses, 2010-1, 2010-2, 2010-3, 2010-4, 2010-5, and 2010-6.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Providence, Rhode Island'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 also noted certain other matters that we reported to management of the City of Providence, Rhode Island in a separate letter dated January 31, 2011.

The City of Providence, Rhode Island's responses to the findings, comments, and recommendations identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Providence, Rhode Island's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, School Committee, audit committee, 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.

*Blairu.PC*

Providence, Rhode Island  
January 31, 2011

**INDEPENDENT AUDITORS' 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 Mayor and  
Members of the City Council  
City of Providence  
Providence, Rhode Island

**Compliance**

We have audited City of Providence, Rhode Island's 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 City of Providence, Rhode Island's major federal programs for the year ended June 30, 2010. City of Providence, Rhode Island's major federal programs are identified in the summary of auditor's 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 City of Providence, Rhode Island's management. Our responsibility is to express an opinion on City of Providence, Rhode Island'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 City of Providence, Rhode Island'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 City of Providence, Rhode Island's compliance with those requirements.

As described in item 2010-7 in the accompanying schedule of findings and questioned costs, the City of Providence, Rhode Island did not comply with the requirements regarding allowable costs that are applicable to its (1) Title I grant cluster and (2) Title II federal programs. Compliance with such requirement is necessary, in our opinion, for the City of Providence, Rhode Island to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, City of Providence, Rhode Island complied, in all material respects, with the 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, 2010.

## Internal Control Over Compliance

The management of the City of Providence, Rhode Island 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 City of Providence, Rhode Island's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance 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 Providence, Rhode Island's internal control over compliance.

Our consideration of 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 significant deficiencies. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined below.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-7 to be a significant deficiency.

## 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 City of Providence as of and for the year ended June 30, 2010, and have issued our report thereon dated January 31, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Providence'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 aspects, in relation to the basic financial statements taken as a whole.

The City of Providence'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 City of Providence, Rhode Island's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the City Council, School Committee, audit committee, 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.

*Blair. PC*

Providence, Rhode Island  
March 31, 2011, except for the paragraph regarding the Schedule of  
Expenditures of Federal Awards as to which the date is January 31, 2011

**CITY OF PROVIDENCE, RHODE ISLAND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expressed an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Providence, Rhode Island.
2. Six material weaknesses in internal control over financial reporting of the City of Providence have been identified and are described in Part B below as items 2010-1 through 2010-6 and were disclosed during the audit.
3. One instance of noncompliance material to the financial statements of the City of Providence, Rhode Island was disclosed during the audit and is presented as item 2010-7 in Part B below.
4. One significant deficiency in internal control over compliance with requirements applicable to major federal programs was identified and is described in Part B below as item 2010-7.
5. The auditors' report on compliance for the major federal award programs for the City of Providence, Rhode Island expresses a qualified opinion.
6. Audit findings relative to the major federal award programs for the City of Providence are reported in Part C of this schedule.

7. The programs tested as major programs were:

LEA Stabilization Grant .....	CFDA # 84.394
National School Lunch Program .....	CFDA # 10.555
National School Breakfast Program .....	CFDA # 10.553
National School Milk Program .....	CFDA # 10.556
Summer Food Service Program .....	CFDA # 10.559
IDEA Part B. ....	CFDA # 84.027
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Community Development Block Grant ...	CFDA # 14.218
WIA Adult Program.....	CFDA # 17.258
WIA Youth Activities .....	CFDA # 17.259
WIA Dislocated Workers.....	CFDA # 17.260

8. The threshold for distinguishing Type A and B programs is described in Note 3 to the Schedule of Expenditures of Federal Awards.
9. The City of Providence, Rhode Island does not qualify as a low-risk auditee.

**CITY OF PROVIDENCE, RHODE ISLAND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

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**B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS**

***Current Year Findings:***

**2010-1. Complete General Ledger:**

Government Accounting Standards #34 requires governmental entities to prepare a government-wide financial statement utilizing the full accrual basis of accounting. Accordingly, the government-wide statements include all long-term debt obligations and capital assets of the governmental activities as well as those reported in the business-type activities. During our audit we noted that the City of Providence does not have adequate policies or procedures in place for maintaining and updating these records. The City does not maintain a comprehensive and centralized ledger to support outstanding balances of long-term debt obligations.

As of June 30, 2010 the City was maintaining the capital asset records for Providence Public Building Authority utilizing Excel spreadsheets. City personnel are utilizing spreadsheets to maintain the capital asset records and must review all financial activity at year-end in an attempt to compile complete and accurate capital asset schedules.

Recommendation: We recommend that the City update the general ledger accounting records to properly include balances and activity of long-term debt obligations, as well as capital asset balances and related depreciation expense. We further recommend that the City shift from the Excel spreadsheets to an integrated capital asset software system as noted below to track all capital assets at the time the purchase order is created and or the invoice is processed. Proper utilization of a fully integrated capital asset module should reduce the risk of misstating capital asset acquisitions and related depreciation expense within a fiscal year.

Managements' Response: Management concurs, Management has relied upon confirmation of debt-service amounts with our Fiscal advisors published debt-service book and reconciling to our Debt Service Master Schedule maintained in a excel spreadsheet format.

Management has begun to explore enhanced software options of our current accounting software system to better enable tracking and reporting of debt service and capital assets.

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**CITY OF PROVIDENCE, RHODE ISLAND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

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**B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS (Continued)**

***Current Year Findings (Continued):***

**2010-2. Cut-off Procedures:**

A sound internal control system includes policies and procedures which provide guidance for monitoring year-end cut-off to ensure that financial activity is reported in the proper period. Based on our audit procedures we believe that the City has a material weakness in its ability to properly report all liabilities and revenue to the appropriate fiscal year. We noted several instances where accounts payable at June 30, 2010 were not properly recorded. Failure to properly establish sound year-end cut-off procedures increases the risk of financial statement misstatements from occurring and going undetected by management. In addition, these misstatements may have an adverse effect on management's ability to make sound financial decisions.

Recommendation: We recommend that the City Finance personnel review current cut-off procedures and develop a policy and procedures for strengthening controls to ensure that all financial transactions are reported in the appropriate period. We recommend that these cut-off procedures be evaluated to determine the cost/benefit of implementing them throughout the year to ensure that accurate interim financial information is readily available.

Managements' Response: The City has always and consistently utilizes procedures to segregate transactions into the appropriate year. Direct payments are clearly marked "old-year and" "new-year" during the period that covers the close of the current fiscal year and the opening of the new fiscal year.

During the FY2010 examination with regards to subsequent –testing and cut-off procedures, it was discovered that a number of items pertaining to purchase orders were processed incorrectly into the new-year. This was a pure oversight, in part due to staff shortages that have occurred during the past fiscal year in the Accounts Payable section of the Controllers' Office.

Management has recognized this short-coming and has begun the necessary procedures to fill positions, consistent with the collective bargaining-unit provisions of the labor contract and the City's fiscal constraints. The City is exploring consolidation and re-deployment measures that may enable more efficiency within the bargaining-unit labor pool.

These positions are considered critical to the flow of work and to ease the strain of a diminished workforce.

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**CITY OF PROVIDENCE, RHODE ISLAND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

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**B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS (Continued)**

***Current Year Findings (Continued):***

**2010-3. Cash:**

Although the City has established procedures and controls related to bank reconciliations, we found that these procedures are not being followed. During our audit we noted bank reconciliations were not prepared on a monthly basis. As a result, material misstatements of the cash accounts and the misappropriation of cash may occur and not be prevented or detected and corrected on a timely basis.

Recommendation: We recommend that all bank accounts be reconciled on a monthly basis to reduce the risk of unintentional errors from occurring and going undetected for extended periods of time. This will improve the reliability of the City's interim financial reporting and expedite the year-end closing process.

Managements' Response: Management concurs with the importance of timely-prepared bank account reconciliations. It should be noted that by exception, that the City experienced a delay in completing the "core" responsibilities of the Fiscal Section of the Controllers' Office, in part, due to over-capacity of the staff assigned to other significant time consuming projects.

Management has immediately corrected this practice and is confident that all core duties have been completed and are considered current. Management notes for the record that this practice was not experienced prior to the FY2010 fiscal year.

**2010-4. Increase Oversight of Decentralized Accounting:**

At present, the City does not require its departments and component units with decentralized accounting to report detailed financial information on a regular basis to aid in the interim and year-end consolidation of financial statements. It became evident as the year-end closing progressed that insufficient control had been exercised over certain accounting policies of these departments during the year. Interdepartmental accounts, which had not been reconciled in detail for some months were found to be out of balance.

Recommendation: We recommend the City take the following steps to affect proper accounting control over its decentralized operations, which will improve the financial validity of financial information and aid in closing schedules:

- Issue detailed instructions on the processing and recording of intercompany transactions.
- Develop standard workpapers covering interfund accounts and other accounts relevant to the year-end financial reporting process and require they be submitted monthly.
- Develop a standard format for reporting monthly financial information to aid in management's analysis.

Managements' Response: Management concurs with the need to exercise greater and more regular control over decentralized departments and component units whose accounting and fiscal operations are not sufficient to maintain reliance upon accurate reporting. Management has taken immediate action to expand the process of oversight and review of decentralized departments and component units and has immediately instituted internal-control and management and supervisory procedures necessary provide timely account reconciliations.

(CONTINUED)

**CITY OF PROVIDENCE, RHODE ISLAND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

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**B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS (Continued)**

***Current Year Findings (Continued):***

**2010-5. Timely Reconciliation of Accounts and Closing Procedures:**

Our audit procedures for fiscal year ended June 30, 2010 revealed there was no systematic method of ensuring that timely and complete monthly reconciliation and closing procedures take place. This situation leads to a continuing and growing backlog of transactions and journal entries that are not posted into the accounting system in a timely manner, which limits the accounting information's usefulness in making well informed business decisions. This accounting function deficiency may ultimately cause significant errors in the financial records and financial statements, as well as allow possible irregularities, including fraud, to exist and continue without notice. During the course of our audit we noted that numerous workpapers and information for the fiscal year ended June 30, 2010 were not updated until requested during our fieldwork. As a result of lack of timely account reconciliations and closing procedures, the fiscal 2010 audit could not be completed by the December 31<sup>st</sup> deadline.

Recommendation: This situation should be corrected as soon as possible with the establishment of a system of consistent and timely monthly reconciliations and closing procedures. We recommend that the City develop such a formal month and year-end closing schedule that indicates specific personnel responsibilities and corresponding time requirements. Strict adherence to this schedule should be required because this will allow for the year-end work and audit preparation to be a much less time-consuming and arduous process.

Managements' Response: Management concurs and acknowledges delays in staff duties due to other Department staffing shortages that utilized and re-deployed the services of the Fiscal Office accounting and fiscal officer personnel. Please see Management Response to Management Comment at 2010-3 for similar corrective action.

(CONTINUED)

CITY OF PROVIDENCE, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

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**B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS (Continued)**

***Current Year Findings (Continued):***

**2010-6. Maintenance of General Ledger:**

During the fiscal year ended June 30, 2010, we noted that the City did not have adequate controls in place for reviewing and maintaining the general ledger accounting records on a periodic basis. At the commencement of the audit fieldwork management provided trial balances for the numerous funds maintained by the City. Upon initial review of these trial balances, we noted instances where the interfund balances were not in agreement. In addition, during the course of our audit, management provided multiple versions of certain trial balances. The lack of a completed and reconciled trial balance is an indication that the general ledger is not being appropriately reviewed and accurately maintained on an ongoing basis.

Recommendation: We recommend that the City establish adequate internal control policies and procedures which will include provisions requiring the general ledger accounting records to be reviewed on a monthly basis by qualified personnel and ensuring that the financial records are accurate and up to date. When reviewing the general ledger trial balance report finance personnel should ensure that the continuing balances agree to the amount reported in the most recent previous period.

Managements' Response: Management has consistently relied upon very reliable career-accounting personnel to conduct the day-to-day activities of maintaining the City's accounting system. There are no material weaknesses in the City's accounting and internal control systems that would require any major change in accounting or management policy.

Management proposes to re-organize the structure of the current day-to-day duties and expects that a more comprehensive management reporting system will enable management to better utilize its existing personnel and provide for more efficient utilization of staff responsibilities. This will improve the reliability and integrity of all financial and reporting systems.

***Prior Year Findings:***

**2009-1. Complete General Ledger:**

Government Accounting Standards #34 requires governmental entities to prepare government-wide financial statements utilizing the full accrual basis of accounting. Accordingly, the government-wide statements include all long-term debt obligations and capital assets of the governmental activities as well as those reported in the business-type activities. During our audit we noted that the City of Providence does not have adequate policies or procedures in place for maintaining and updating these records. The City does not maintain a comprehensive and centralized ledger to support outstanding balances of long-term debt obligations.

As of June 30, 2010 the City was maintaining the capital asset records utilizing Excel spreadsheets and must review all financial activity at year end in an attempt to compile complete and accurate capital asset schedules.

Status: See current year finding 2010-1.

(CONTINUED)

**CITY OF PROVIDENCE, RHODE ISLAND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

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**B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS (Continued)**

***Prior Year Findings (Continued):***

**2009-2. Cut-off Procedures:**

A sound internal control system includes policies and procedures which provide guidance for monitoring year end cut-off to ensure that financial activity is reported in the proper period. Based on our audit procedures we believe that the City has a material weakness in its ability to properly report all liabilities and revenue to the appropriate fiscal year. Based on our audit procedures we believe that the City has a significant deficiency in its ability to properly report all liabilities and revenue to the appropriate fiscal year. We noted several instances where accounts payable at June 30, 2010 were not properly recorded. Failure to properly establish sound year end cut-off procedures increases the risk of financial statement misstatements from occurring and going undetected by management. In addition, these misstatements may have an adverse effect on management's ability to make sound financial decisions.

Status: See current year finding 2010-2.

**C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS**

***Current Year Findings:***

**2010-7: (1) Title I – CFDA #84.010, (2) Title I ARRA – CFDA #84.389, & (3) Title II – CFDA #84.367**

**Criteria:** The Providence School Department may receive direct federal funding as well as federal funding passed through the State of Rhode Island. During our audit we noted instances where payroll records supporting cost allocations to federal programs were not being maintained in accordance with the requirements of OMB Circular A-87. The circular requires that payroll costs charged to federally funded programs be supported as follows:

- Salaries and wages for employees working 100% of their time on a single Federal award or cost objective must be supported by periodic certifications. These certifications must be prepared at least semi-annually and must be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
- Salaries and wages for employees working on multiple activities or cost objectives must be supported by (a) personnel activity reports that reflect an after-the-fact distribution of the actual activity of the employee, (b) they must account for the total activity for which an employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee.

**Statement of  
Condition:**

The Providence School Department does not have an adequate policy or procedure in place requiring employees working for multiple activities or cost objectives to maintain time records in accordance with the requirements of OMB Circular A-87. The School Department maintained semi-annual certifications for those charged 100% to federal programs but did not maintain monthly certifications for those who were charged less than 100%, but instead charged the budgeted allocation percentage in each pay period.

(CONTINUED)

CITY OF PROVIDENCE, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010**

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**C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS (Continued)**

***Current Year Findings (Continued):***

**2010-7: (1) Title I – CFDA #84.010, (2) Title I ARRA – CFDA #84.389, & (3) Title II – CFDA #84.367**

**Effect of**

**Condition:**

Failure to properly document and allocate payroll expenses to their corresponding program(s) may result in excess costs being charged to a federally funded program.

**Questioned**

**Costs:**

The results of our testing identified known questioned costs of approximately: \$3,988 for CFDA #84.010, \$1,020 for CFDA #84.389, and \$4,428 for CFDA #84.367.

**Recommendation:**

We recommend that the management of the Providence School Department develop and enforce a policy requiring all federally funded employees to maintain time records in accordance with the provisions of OMB Circular A-87 and that the policy include an internal audit function requiring someone independent of the federal program to review time records on a periodic basis for compliance.

**Corrective Action:**

The Providence School Department will immediately start maintaining monthly certifications for those employees working on multiple activities or cost objectives.

(CONCLUDED)

**CITY OF PROVIDENCE, RHODE ISLAND**

**SUMMARY OF SCHEDULE OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2010**

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**C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS (Continued)**

***Prior Year Findings:***

None.