CITY OF PROVIDENCE, RHODE ISLAND

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

Year Ended June 30, 2011

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, 2011

Federal grantor/pass through grantor/program title	CFDA Number	Federal Expenditures (in thousands)
U.S. Department of Housing & Urban Development:		
Direct programs:		
Community Development Block Grant	14.218	$6,287
Lead Based Paint Hazard Control	14.900	2,163
Home Investment Partnerships Program	14.239	2,072
Homeless Prevention and Rapid Re-Housing Program Technical Assistance	14.262	990
Housing Opportunities for Persons with AIDS	14.241	882
Community Development Entitlement Grant	14.228	698
Emergency Shelter Grant	14.231	248
HUD - EDI Special Project Grant	14.246	52
Total U.S. Department of Housing and Urban Development		13,392
U.S Department of Health & Human Services		
Passed through the State of Rhode Island, Department of Health & Human Services		
HHS: Prevention & Wellness	93.724	1,137
Emergency Contingency Fund for Temporary Assistance for Needy Families	93.714	310
Drug Free Communities Support Program Grants	93.276	137
Total U.S. Department of Health & Human Services		1,584
U.S Department of Commerce		
Passed through the State of Rhode Island, Department of Commerce:		
Economic Development Support for Planning Organizations	11.302	97
Total U.S. Department of Commerce		97
U.S Department of Environmental Protection:		
Direct Programs:		
Brownsfields Assessment and Cleanup Cooperative Agreement	66.818	246
Total U.S. Department of Transportation		246
U.S. Department of Agriculture:		
Passed through the State of Rhode Island, Department of Education:		
National School Lunch Program	10.555	10,948
National School Breakfast Program	10.553	1,208
Special Milk Program for Children	10.556	694
Fresh Fruits and Vegetables	10.582	593
Summer Food Service Program for Children	10.559	285
Total U.S. Department of Agriculture		13,728

(CONTINUED)

SEE ACCOMPANYING NOTES TO SCHEDULE

CITY OF PROVIDENCE, RHODE ISLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal grantor/pass through grantor/program title	CFDA Number	Federal Expenditures (in thousands)
U.S Department of Education:		
Passed through the State of Rhode Island, Department of Education:		
Title I Grants to Local Educational Agencies	84.010	22,312
ARRA - Title I School Improvement Part G	84.389	10,145
Education Jobs Fund	84.410	7,126
State Education - Grants to States	84.027	6,698
ARRA - IDEA Part B	84.391	4,707
Improving Teacher Quality State Grants	84.367	4,430
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	4,415
Reading First State Grant	84.357	1,503
Vocational Education - Basic Grants to States	84.048	1,103
English Language Acquisition Grants	84.365	658
Title I - School Improvement Part G	84.377	547
Special Education - Preschool Grants	84.173	161
ARRA - IDEA Preschool	84.392	154
Safe and Drug-Free Schools and Communities State Grants	84.186	41
Education Technology State Grants	84.386	20
Homeless Youth - ARRA	84.387	3
Total U.S. Department of Education		64,023
U.S. Department of Labor:		
Direct programs:		
WIA Dislocated Workers	17.260	2,364
WIA Youth Activities	17.259	1,721
WIA Adult Program	17.258	1,688
Pathways Out of Poverty	17.275	1,201
Total U.S. Department of Labor		6,974
U.S Department of Transportation:		
Direct Programs:		
Highway Planning and Construction	20.205	80
Total U.S. Department of Transportation		80
U.S. Department of Justice:		
Passed through the State of Rhode Island, Department of Justice:		
Congressionally Recommended Awards	16.753	437
Public Safety Partnership and Community Policing Grants	16.710	394
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants	16.803	338
Edward Byrne Memorial Justice Assistance Grant Program	16.738	300
Total U.S. Department of Justice		1,469

(CONTINUED)

SEE ACCOMPANYING NOTES TO SCHEDULE

CITY OF PROVIDENCE, RHODE ISLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal grantor/pass through grantor/program title	CFDA Number	Federal Expenditures (in thousands)
U.S. Department of Homeland Security:		
Passed through State of Rhode Island, Department of Homeland Security		
Urban Areas Security Initiative	97.008	1,027
Buffer Zone Protection Program	97.078	391
Metropolitan Medical Response System	97.071	370
Port Security Grant Program	97.056	330
Emergency Operations Center	97.052	152
National Fire Academy Followship Program	97.019	140
FEMA Reimbursement	97.042	72
State Homeland Security Program (SHSP)	97.073	19
Interagency Hazardous Materials Public Sector Training and Planning Grants	97.051	13
Hazard Mitigation Grant	97.039	2
Total U.S. Department of Homeland Security		2,516
U.S Department of Energy:		
Direct Programs:		
Energy Efficiency and Conservation Block Grant Program	81.128	796
Total U.S. Department of Transportation		796
Total Expenditures of Federal Awards		$104,905

(CONCLUDED)

SEE ACCOMPANYING NOTES TO SCHEDULE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011

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 $100,000,000. For the fiscal year ended June 30, 2011, 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
Special Milk Program for Children	CFDA # 10.556
Summer Food Service Program for Children	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
ARRA Education Jobs Fund	CFDA # 84.410
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

Braver PC
Accountants & Advisors

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, 2011, which collectively comprise the City of Providence, Rhode Island's basic financial statements and have issued our report thereon dated December 29, 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

Management of the City of Providence, Rhode Island is responsible for establishing and maintaining effective 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, 2011-1, 2011-2, 2011-3, 2011-4 and 2011-5.

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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 noted certain other matters that we reported to management of the City of Providence, Rhode Island in a separate letter dated December 29, 2011.

The City of Providence, Rhode Island'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 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.

Braun PC

Providence, Rhode Island
December 29, 2011

Braver PC
Accountants & Advisors

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, 2011. 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 2011-6 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 CDBG federal program. 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, 2011.

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.

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 2011-6 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, 2011, and have issued our report thereon dated December 29, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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.

Braun PC

Providence, Rhode Island
March 29, 2012 except for the paragraph regarding the Schedule of
Expenditures of Federal Awards as to which the date is December 29, 2011

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. Five material weaknesses in internal control over financial reporting of the City of Providence have been identified are described in Part B below as items 2011-1 through 2011-5 and were disclosed during the audit.

3. No instances of noncompliance material to the financial statements of the City of Providence, Rhode Island were disclosed during the audit.

4. One significant deficiency in internal control over compliance with requirements applicable to major federal programs was identified and is described in Part C below as item 2011-6.

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
Special Milk Program for Children	CFDA # 10.556
Summer Food Service Program for Children	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
ARRA Education Jobs Fund.....	CFDA # 84.410
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.

B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS

Current Year Findings:

2011-1. Complete General Ledger:

Governmental Accounting Standards Board Statement #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 (including the School Department) does not have adequate policies or procedures in place for maintaining and updating these records. The City does not maintain a general ledger to support outstanding balances of long-term debt obligations. In addition, the schedule maintained by the City was not complete as it had not been updated for debt issued during the year.

As of June 30, 2011, the City was maintaining the capital asset records for Providence Public Buildings 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. The schedule for fiscal year ended June 30, 2011 was not updated for acquisitions related to the planning department.

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. Utilization of a fully integrated capital asset module should reduce the risk of understating capital asset acquisitions within a fiscal year.

Management's Response:

Management concurs. Management has relied on confirmation of debt-service obligations with our fiscal advisor's published debt-service book. Management then reconciles to our debt service master schedule which is maintained in an excel schedule.

Management has begun the process of integrating the PPBA fixed assets into City software to better track and report the City's fixed assets.

2011-2. 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 significant deficiency in its ability to properly report all liabilities and revenue to the appropriate fiscal year. We noted instances where accounts payable at June 30, 2011 were not properly recorded. Failure to properly establish sound year end cut-off procedures increases the risk of financial statement misstatements occurring and going undetected by management. In addition, these misstatements may have an adverse effect on management's ability to make sound financial decisions.

(CONTINUED)

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

2011-2. Cut-off Procedures: (Continued)

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.

Management's Response:

The City has procedures to include expenses in the proper year. Direct payments are marked "old year" and "new year" during the closing period of the fiscal year. During 2011 it was discovered that purchase orders were expensed to the incorrect year. This oversight was due in part to staff turnover and shortages in the Accounts Payable and Controller's Office. Management recognizes this shortcoming and has begun the necessary procedures to fill positions, consistent with City's fiscal restraints and collective bargaining-unit provisions of its labor contracts.

2011-3. Timely Reconciliation of Accounts and Closing Procedures

Our audit procedures revealed that during fiscal year ended June 30, 2011 there was no systematic method of ensuring that timely and complete monthly reconciliation and closing procedures take place. Bank reconciliations were not prepared and loan receivable subsidiary ledgers were not reconciled to the general ledger on a monthly basis. 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. This situation should be corrected as soon as possible with the establishment of a system of consistent and timely monthly reconciliations and closing procedures.

Recommendation:

We recommend that the Planning Department develop 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.

Management's Response:

Management concurs. As of January 2012, the Planning Department has implemented a formal reconciliation process for all cash accounts and loan accounts which are completed on a monthly basis.

(CONTINUED)

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

2011-4. 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 reporting of the financial statements. It became evident as the year-end closing progressed that insufficient control had been exercised over certain accounting policies of the Planning Department 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.

Management's Response:

Management concurs with the need to exercise greater control over decentralized departments and component units whose accounting and fiscal operations are not sufficient to maintain reliable and accurate accounting. Management has taken action to expand fiscal oversight and review of decentralized departments and component units. Internal control, management and supervisory procedures necessary to provide timely account reconciliations have been implemented.

2011-5. Accounting Policy and Procedures Manual:

We noted that the City of Providence currently does not have a formal up-to-date accounting policy and procedures manual. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that procedures used are proper, and that records are produced in the form desired by management. A good accounting manual will also aid in the training of new employees.

Recommendation:

We recommend that an accounting policy and procedures manual be prepared. The procedures manual should identify the controls that are in place to help reduce the risk of fraud, errors, or irregularities from occurring and going undetected by management. It will take some time and effort by management to develop a manual; however, we believe this time will be more than offset by time saved later in training accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective. The manual should include references to applicable applications and monthly closing procedures.

(CONTINUED)

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

2011-5. Accounting Policy and Procedures Manual: (Continued)

Management's Response:

Management concurs. Management has begun the process of developing and writing an accounting manual. This will be an important tool management will use in training and supervising accounting personnel. The process will also allow management to evaluate its internal control and improve procedures.

(CONTINUED)

C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

Current Year Findings:

2011-6: (1) CDBG – CFDA #14.218

Criteria: The Providence Planning 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 Planning Department does not have adequate documentation of personnel activity reports that reflect an after-the-fact distribution of the actual activity of the employee in accordance with the requirements of OMB-Circular A-87. The Planning Department did not document time worked for those charged to CDBG adequately on their timesheets.

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 $ 4,585 for CFDA #14.218

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 Planning Depart concurs with the finding. Certifications are now in effect for all employees who charge 100% of their time to a Federal grant.

(CONTINUED)

C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

Current Year Findings:

2011-6: (1) CDBG – CFDA #14.218 (Continued)

Corrective Action: The Planning Department uses an online intra-departmental time sheet program. Each employee must allocate his/her time to a grant/project weekly in this program, print a copy, and sign it, and forward to the respective Director. The director reviews the timesheet and forwards it to the Fiscal department for submission to HR for processing the payroll. The employee will not be paid if he/she fails to provide this information to the Fiscal Department on a timely basis.

Semi-annually, the gross time and individual employee time allocated to a grant/project is reviewed by the Department Director and the Fiscal Director and compared to the budgeted amounts. This process occurs during the reimbursement calculation of payroll owed to the General Fund, which is paying agent for the entire city payroll. Any discrepancies are investigated and changes to the budgeted percentages are then made before the subsequent draw downs from the agencies. Only after this review are the reimbursement amounts drawn from the various grants.

These procedures were in place during Fiscal Year 2011 but were not followed accordingly and the auditors noted 2 exceptions. One employee did not fill in the time sheet properly as he did not allocate any time to any grant. He simply put that he worked 35 hours without indicating that the hours should be charged to a grant or program. The other employee charged all their time to General Administration, but should have been charging 20% to NSP. The department heads did not detect these errors.

The Planning department will monitor more closely time charged to each Grant/Program and each Director will sign off on their employees' timesheets after reviewing for correct allocations.

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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.

Status: This finding has not been corrected as of June 30, 2011, see finding 2011-1.

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.

Status: This finding has not been corrected as of June 30, 2011, see finding 2011-2.

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.

Status: This finding was corrected in fiscal year 2011.

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.

Status: This finding was not corrected as of June 30, 2011, see finding 2011-4.

(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 31st deadline.

Status: This finding has not been corrected as of June 30, 2011, see finding 2011-3.

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.

Status: This finding has been corrected for fiscal year 2011.

(CONTINUED)

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.

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.

Status: This finding has been corrected as of June 30, 2011.

(CONCLUDED)