

**TOWN OF LEE, MASSACHUSETTS**

Independent Auditors' Reports Pursuant  
to Governmental Auditing Standards  
and The Single Audit Act Amendments of 1996

For the Year Ended June 30, 2010

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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Selectmen  
Town of Lee, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Town of Lee, Massachusetts, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements and have issued our report thereon dated September 21, 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 Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

*Additional Offices:*

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 10-1, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### 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 other matters that we reported to management of the Town in a separate letter dated September 21, 2011.

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

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

Greenfield, Massachusetts  
September 21, 2011



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### REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Selectmen  
Town of Lee, Massachusetts

#### Compliance

We have audited the Town of Lee, Massachusetts'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 its major federal programs for the year ended June 30, 2010. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a

reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

#### Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2010, and have issued our report thereon dated September 21, 2011. 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.

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

Greenfield, Massachusetts  
September 21, 2011

TOWN OF LEE, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Grantor/ Pass-Through Grantor/ <u>Program Name</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through Commonwealth of Mass. Department of Elementary and Secondary Education School Lunch Program	10.555	\$ 149,030
<u>U.S. Department of Housing and Urban Development</u>		
Pass through Commonwealth of Mass. Executive Office of Housing and Economic Development Lee Housing Improvement (Lee Housing Authority)	14.555	275
<u>U.S. Department of Justice</u>		
Community Policing	16.580	3,129
<u>U.S. Environmental Protection Agency</u>		
Pass through Commonwealth of Mass. Mass Water Pollution Abatement Trust Capitalization Grant for Drinking Water State Revolving Loan Fund	66.468	141,392
<u>U.S. Department of Education</u>		
Passed through Commonwealth of Mass. Department of Elementary and Secondary Education		
Title I	84.010	73,222
Title I ARRA	84.389	15,310
Title VIB PL 94-142	84.027	264,158
SPED IDEA ARRA	84.391	107,985
Early Childhood SPED	84.173	14,212
Early Childhood ARRA	84.392	1,910
Title II Improving Teacher Quality	84.367	<u>41,050</u>
Total All Programs		\$ <u>811,673</u>

See Independent Auditors' Report on Compliance with OMB A-133.

This schedule has been prepared on the modified accrual basis of accounting.

State identifying numbers were not available for the pass-through grants listed above.

**TOWN OF LEE, MASSACHUSETTS**

**Schedule of Findings and Questioned Costs**

For the Year Ended June 30, 2010

**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>
66.468	Capitalization Grant for Drinking Water State Revolving Loan Fund
84.027 / 84.391 / 84.173 / 84.392	SPED / Early Childhood SPED Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

## SECTION II - FINANCIAL STATEMENT FINDINGS

### Finding #

### Finding/Noncompliance

#### 10-1 RECONCILE CASH AND OTHER BALANCE SHEET ACCOUNTS (SIGNIFICANT DEFICIENCY)

In fiscal year 2010 we found that general ledger balances for cash, ambulance receivables, accrued payroll and health insurance withholding were misstated. Specifically:

- Cash balances in the general ledger were more than Treasurer's balances at June 30, 2010 by approximately \$ 13,000, after corrections to the reconciliation were found during the audit process.
- The ambulance receivable balance in the general ledger was approximately \$ 30,000 more than the balance maintained by the outside billing company. Since this receivable is fully deferred there was no effect on fund balance from the adjustment needed to bring the two in balance.
- The health insurance withholding balance was understated by approximately \$ 17,000, due in part to a misunderstanding of when insurance was withheld for school employees.
- Accrued payroll was overstated by approximately \$ 13,000, apparently due to a prior year error and may also be related to the cash variance noted above.

We recommend that all balance sheet accounts be fully reconciled to supporting documents before closing to ensure that the balances and corresponding activity is accurate and supportable.

#### Town's Response:

The Town agrees to reconcile to supporting documents before closing. Points 1 and 4 are related. There was a timing error in the recording of the accrued payroll entry of the prior year which resulted in the overstatement of General Ledger Cash and Payroll Liability. Point 2 refers to a Deposit in Transit that subsequently was recorded in the General Ledger the following year.

## SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

## SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

There were no findings in the prior year.