

**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, 2012

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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, each major fund, and the aggregate remaining fund information of the Town of Lee, Massachusetts, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated June 21, 2013. 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 Town is responsible for establishing and maintaining effective 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.

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 significant deficiencies.

*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.

*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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-2 to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the schedule of findings and questioned costs as item 12-3.

We noted other matters that we reported to management of the Town in a separate letter dated June 21, 2013.

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

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

June 21, 2013



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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' 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, 2012. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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

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

As described in item 12-4 in the accompanying schedule of findings and questioned costs, the Town did not comply with requirements regarding special tests that are applicable to its School Lunch Program. Compliance with such requirements is necessary, in our opinion, for the Town to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Town complied, in all material respects, with the 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, 2012.

#### 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, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2012, and have issued our report thereon dated June 21, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the Town's 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 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, such information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

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

June 21, 2013

TOWN OF LEE, MASSACHUSETTS  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Name	Federal CFDA No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed through Commonwealth of Mass. Department of Elementary and Secondary Education School Lunch Program	10.555	\$ 134,727
<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	1,500
<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	13,773
<u>U.S. Department of Energy</u>		
Passed through Commonwealth of Mass. Executive Office of Energy and Environmental Affairs Department of Energy Resources Energy Efficiency & Conservation Block Grant (ARRA)	81.128	29,815
<u>U.S. Department of Education</u>		
Passed through Commonwealth of Mass. Department of Elementary and Secondary Education Title I	84.010	88,135
Title I - ARRA	84.389	392
Title VIB PL 94-142	84.027	268,539
Circuit Breaker	84.027A	5,823
SPED IDEA - ARRA	84.391	1,267
Early Childhood SPED	84.173	14,205
Title II Improving Teacher Quality	84.367	36,004
Education Jobs	84.410	74,144
<u>U.S. Department of Homeland Security</u>		
Assistance to Fire Fighters	97.044	84,066
Passed through Commonwealth of Mass Massachusetts Emergency Management Agency Disaster Aid	97.044	84,724
Total All Programs		\$ <u>837,114</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, 2012

**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 for all major programs except School Lunch Program which was qualified for Special Tests and Provisions.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☒ yes ☐ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555 84.027 / 84.027A / 84.173 / 84.391	School Lunch Program 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

<u>Finding #</u>	<u>Finding/Noncompliance</u>
12-1	<p><u>IMPROVE CONTROLS OVER BUDGETARY APPROPRIATIONS (SIGNIFICANT DEFICIENCY)</u></p> <p>Massachusetts General Laws prohibit municipal organizations from over expending budgeted appropriations. In fiscal year 2012, the Town over expended two departmental budgets by approximately \$ 9,500. The Building Inspector budget was over expended by \$ 9,294 and the Street Lights budget was over expended by \$ 172. The Town should have funded these budgets either through end-of-year transfers from other funds/line items or by including the total over expenditure on the fiscal year 2013 tax recap.</p> <p>In addition, an appropriation for \$ 65,838 was voted at a fiscal year 2012 Special Town Meeting in May 2012, but was not added to the internal budget reports. The line item was not fully expended in fiscal year 2012 and because the budget had not been entered, the unexpended balance was not encumbered; however, the funds were spent in fiscal year 2013. The Town should fund this technical over expenditure in fiscal year 2013 or raise it on the fiscal year 2014 tax recap.</p> <p><u>Town's Response:</u> An interdepartmental transfer of \$ 5,000 was done on July 10, 2012 from the Street Lights budget. At the time it had a surplus of \$ 5,404.39. On July 11, 2012 a bill from Henry's Electric for \$ 576.75 came in for the July warrant, but it was for work done on 6/15, so it was mistakenly paid in the last June 30, 2012 warrant. Thus the Street Lights department was over by \$ 172.</p> <p>With regard to the Building Department budget, an interdepartmental transfer that was intended to be made from the Snow and Ice budget having an \$ 89,000 surplus was taken from the Building Department instead, due to a typo of the account number on the interdepartmental transfer worksheet. This caused the Building Department deficit. Going forward, we intend to look more to the reserve fund for transfers and less to interdepartmental transfers. Also, the Town will review year-end transfers for available funds and accuracy and, if any deficits remain unfunded, will include them in the recap.</p> <p>Regarding the appropriation for \$ 65,838, due to the transition to new staff it was not properly carried over to fiscal year 2013. It will be reported on the fiscal year 2014 recap.</p>
12-2	<p><u>RECONCILE CASH AND OTHER BALANCE SHEET ACCOUNTS (SIGNIFICANT DEFICIENCY)</u></p> <p>As in the past two fiscal years, we found that general ledger balances for cash and accrued payroll were misstated. Specifically:</p> <ul style="list-style-type: none"><li>• As of April, 2013, receivables had not been reconciled between the Collector's controls and the general ledger since June 30, 2012 because ac-</li></ul>

tivity had not been posted in the general ledger. Activity should be posted in the general ledger in the month it occurs and reconciliations should be performed at least quarterly.

- Cash balances in the general ledger were more than the Treasurer's balances by approximately \$ 12,635 at June 30, 2012, \$ 11,693 at June 30, 2011 and approximately \$ 13,000 at June 30, 2010.

In addition, we found that as of April 2013, cash had not been fully reconciled between the general ledger and Treasurer since June 2012.

- Accrued payroll was understated by approximately \$ 14,000, which is comparable to prior years and appears to be due largely to a prior year error.

We recommend that these variances be analyzed and, if they continue to remain consistent, that the general ledger be adjusted. We also recommend

procedures be established to reconcile cash and receivables between the general ledger and the Treasurer or Collector records on a monthly basis.

Town's Response:

As of now, receivables are posted and reconciled on a quarterly basis, so the first 3 quarters of fiscal year 2013 have been posted and reconciled. We are working on reconciling cash monthly and are planning to have the general ledger variance (which seems to be accrued payroll from 2008 and prior) adjusted for our next audit. Budget Sense training was done in June of 2013 as well, to allow use of some new reports to make cash reconciliations and reporting easier.

12-3 ENSURE COMPLIANCE WITH MASSACHUSETTS PROCUREMENT LAWS (COMPLIANCE FINDING)

In testing for compliance with MGL Chapter 30B, "The Procurement Act", we noted two instances of noncompliance:

In the first case, no quotes were obtained for the purchase of police laptops totaling \$ 15,341. They were purchased from a vendor that had been used in the past and used to be on the State bid list (until 2009). Under MGL 30B however, either the vendor needs to be on the current State bid list (for the items purchased), or three quotes need to be solicited and the bid awarded to the lowest qualified bidder.

In the second case, the Town did not follow all required procedures related to an emergency procurement to address frozen pipes at a school. Under MGL Ch. 30B emergency purchases may circumvent normal procurement procedures, but require documentation of the procurement to be submitted to the Goods and Services Bulletin within a specific period of time after the emergency has passed. The Town did not submit the information to the Bulletin.

In order to avoid this situation in the future, we recommend the Town review procurement requirements and ensure that proper procedures are followed for applicable purchases.

Town's Response:

The School Business Coordinator and Police Chief will attend MCCPO training. The School Business Coordinator will become certified as a purchasing agent. The Town Accountant has taken the initial procurement overview class and will take the more detailed goods and services procurement class in fiscal year 2014. The School will review procurement policies with the administration in order to avoid this situation in the future. Going forward we will verify that all state purchasing contracts are valid.

### SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
12-4	School Lunch Program 10.555	<u>IMPROVE SCHOOL LUNCH VERIFICATION PROCEDURES (COMPLIANCE FINDING)</u>  <u>Criteria:</u> The School is required to verify a sample of eligibility applications that it has approved for free and reduced price meals. The verification sample size is based on the total number of approved applications on file on October 1st.  <u>Condition:</u> We examined all six of the verifications performed by the School and noted the following exceptions: <ul style="list-style-type: none"> <li>The School's verification summary report was not completed correctly; the report said 5 verifications were performed but the School Department actually verified 6 applications. No change in status was reported but in fact 2 of the verifications resulted in a change (see next bullet).</li> <li>No changes were made as a result of verification testing; however, the School's results showed that two of the determinations should have been changed. In one case, the determination should have been changed from</li> </ul>	N/A

reduced to paid, and in the other case the determination should have been changed from reduced to free.

- Documentation supporting the verification was not available for two of the six verifications tested.
- Documentation of all income sources was not obtained or evaluated for one application.

Effect and Identification of Questioned Costs:

Improper verification testing may result in incorrect eligibility determination and consequently, improper meal prices paid. It is our determination that the effect of these exceptions extrapolated to the population would not result in a material over-reimbursement of claims submitted. Accordingly, there are no questioned costs as a result of this finding.

Recommendation:

We recommend the School Department review its verification procedures to ensure that forms are completed properly, verifications are complete and fully documented and, if applicable, the student's eligibility status is changed as a result of verification process.

Corrective Action Plan:

Verifications have been previously done at each School. It is now required to be done on the Virtual Gateway (VG) and the School Business office will be doing the verifications. The School Business office is writing procedures regarding school lunch applications and is having a meeting with all involved in the application in July. We believe that these processes will eliminate the issues that were found.

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

There were no findings in the prior year.