

TOWN OF LEE, MASSACHUSETTS
Independent Auditors' Reports Pursuant
to the Governmental Auditing Standards and
The Single Audit Act Amendments of 1996
Year Ended June 30, 2013

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Adelson & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

Richard F. LaFleche, CPA
 Vincent T. Viscuso, CPA
 Gary J. Moynihan, CPA
 Carol Leibinger-Healey, CPA
 David M. Irwin, Jr., CPA

INDEPENDENT AUDITORS' 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, in accordance with the 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, 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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Lee's basic financial statements, and have issued our report thereon dated February 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Lee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Lee's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Lee's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Lee's financial statements are free from 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*.

Town of Lee's Response to Findings

The Town of Lee's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Lee's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Adelson + Company PC
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February 3, 2014



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Selectmen
 TOWN OF LEE, MASSACHUSETTS

Report on Compliance for Each Major Federal Program

We have audited the Town of Lee'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 Town of Lee's major federal programs for the year ended June 30, 2013. The Town of Lee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Lee's major federal programs based on our audit of the types of compliance requirements referred to above. 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 of Lee'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Lee's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Lee, complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the Town of Lee is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Lee's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 of Lee'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. *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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Lee's basic financial statements. We issued our report thereon dated February 3, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Adelson & Company PC
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February 3, 2014

TOWN OF LEE, MASSACHUSETTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Passed through Massachusetts Department of Housing and Community Development			
Community Development Block Grant			
Small Cities Program	14.228	OCD PVOC 3220 13	\$ <u>473,820</u>
U.S. Department of Agriculture			
Passed through Massachusetts Department of Elementary and Secondary Education			
School Lunch Program	10.555	DOE 13758G70532112A	139,400
Commodities distribution (non cash)	10.555	N/A	<u>1,573</u>
			<u>140,973</u>
U.S. Department of Education			
Passed through Massachusetts Department of Elementary and Secondary Education			
Title I Grants to Local Education Agencies	84.010	DOE INTF 969G2013325	115,059
Special Education Grants to States	84.027	DOE INTG 969J2013269	260,056
Special Education Preschool Grants	84.173	26213LEEPUBLICSCHOOL	16,567
Improving Teacher Quality State Grants	84.367	DOE INTF 969G2013340	<u>37,018</u>
			<u>428,700</u>
Total Expenditures of Federal Awards			<u>\$ 1,043,493</u>

TOWN OF LEE, MASSACHUSETTS**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS****June 30, 2013****NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Town of Lee under programs of the federal government for the year ended June 30, 2013. 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*. Because the Schedule presents only a selected portion of the operations of the Town of Lee, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Lee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

TOWN OF LEE, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ☐yes ☒no
- Significant deficiencies identified that are not
considered to be material weaknesses? ☒yes ☐none reported

Noncompliance material to financial statements noted? ☐yes ☒no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ☐yes ☒no
- Significant deficiencies identified that are not
considered to be material weaknesses? ☐yes ☒none reported

Type of auditors' report issued on compliance for major programs: Unmodified

- 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:

See detail on Schedule of Expenditures of Federal Awards

<u>CFDA Number</u>	<u>Federal Grantor</u>
10.555	Department of Agriculture – National School Lunch Program
14.228	Department of Housing and Urban Development – Community Development Block Grants

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

2013-1

Reconciliation of cash

Significant deficiency

Reportable Condition:

The Town's bank account reconciliations reported a variance of \$20,334 between the Accountant's general ledger and the Treasurer's records (Treasurer's records being higher than the general ledger) as of June 30, 2013. Of this amount, \$12,635 was related to prior years (2008 and earlier) for which the Town, upon reviewing with the Department of Revenue, will adjust in fiscal year 2014. The Town was unable to reconcile the remaining difference of \$7,699.

Criteria:

The Town should have adequate procedures in place to a) ensure accurate bank reconciliations are prepared, and b) safeguard cash by detecting errors on the part of the bank and/or municipality when recording activities in the general ledger.

Cause and Effect of Condition:

The Town's bank reconciliations are not adequate to uncover differences that may need further investigating.

Recommendation:

The Accountant and Treasurer need to document a clear audit trail of reconciling the cash account balances to the general ledger balances. This will include maintaining more accurate records of outstanding checks and deposits in transit.

Town's Response:

The Town has made much progress with this from fiscal year 2012 to 2013 but it is a work-in-progress and will be resolved in fiscal year 2014.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs for the year ended June 30, 2013.

STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

Finding 2012-1

Improve controls over budgetary appropriations

Significant deficiency

Prior Year Condition:

- a) 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.
- b) An appropriation of \$65,838 was voted at a fiscal year 2012 Special Town Meeting but was not added to the internal budget reports. This amount, which was fully spent in fiscal year 2013, was not encumbered at June 30, 2012.

Prior Year Recommendation:

- a) The Town should have funded the over expended department budgets through end-of-year transfers or from other funds available.
- b) The Town should fund the technical over expenditure of \$65,838 in fiscal year 2013 or raise it on the fiscal year 2014 tax recap.

Current Status:

- a) With regard to the Building Inspector budget, an inter-department transfer that was intended to be made from the Snow and Ice budget having a surplus was taken from the Building Department instead, due to a typo of the account number. The Street Lights budget was over by \$172. The Town intends to review year-end transfers for available funds and accuracy.

During fiscal year 2013, we did not identify any issues regarding deficit spending.

- b) The Town added the \$65,838 to the 2014 tax recap.

STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)

Finding 2012-2

Reconcile cash and other balance sheet accounts

Significant deficiency

Prior Year Condition:

- a) As of April, 2013, receivables had not been reconciled between the Collector's controls and the general ledger since June 30, 2012 because activity had not been posted in the general ledger.
- b) 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, cash had not been fully reconciled between the general ledger and Treasurer since June 2012.
- c) 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.

Prior Year Recommendation:

The variances should be analyzed, and if they remain consistent, the general ledger should be adjusted.

Current Status:

- a) The receivables have been posted and are reconciled to the general ledger.
- b) The Town was unable to fully reconcile cash at June 30, 2013. This item is repeated as Finding 2013-1 on page 9 of this report.
- c) The accrued payroll variance was identified as a duplicate posting from a prior year and will be adjusted accordingly by the Town Accountant.

**STATUS OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)**

Finding 2012-3

Ensure compliance with Massachusetts Procurement Laws

Significant deficiency

Prior Year Condition:

In testing for compliance with MGL Chapter 30B, "The Procurement Act", there were two instances of noncompliance; no quotes obtained for the purchase of police laptops and information was not submitted timely to the Town Bulletin for an emergency procurement.

Prior Year Recommendation:

The Town should review procurement requirements and ensure that proper procedures are followed.

Current Status:

Applicable Town employees attended procurement training. There were no issues noted during our review of the Town's procurement for goods and services in fiscal year 2013.

Finding 2012-4

Improve School Lunch Verification Procedures

Federal awards finding

Prior Year Condition:

Improper verification of student eligibility applications were done over the school lunch program.

Prior Year Recommendation:

The School department should 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 changed as a result of the verification process.

Current Status:

There were no issues noted during our testing of student application and verification procedures over the school lunch program for fiscal year 2013.