



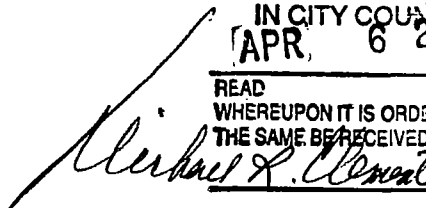
**CITY OF PROVIDENCE, RHODE ISLAND**

Auditors' Reports as Required by OMB Circular A-133  
and *Government Auditing Standards* and Related Information

Year Ended June 30, 1999

IN CITY COUNCIL  
APR 6 2000

READ  
WHEREUPON IT IS ORDERED THAT  
THE SAME BE RECEIVED.

Handwritten signature of Michael S. Christ in cursive script, written over a horizontal line.

CLERK

# CITY OF PROVIDENCE, RHODE ISLAND

## Table of Contents

Auditors' Report on Compliance, Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	Exhibit I
Schedule of Expenditures of Federal Awards	Exhibit II
Auditors' Report on Compliance and on Internal Control over Financial Reporting in Accordance with <i>Government Auditing Standards</i>	Exhibit III
Schedule of Current Year Findings and Questioned Costs	Exhibit IV



600 Fleet Center  
50 Kennedy Plaza  
Providence, RI 02903-9605

**Exhibit I**

**AUDITORS' REPORT ON COMPLIANCE, INTERNAL CONTROL  
OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

The City Council  
City of Providence, Rhode Island:

**Compliance**

We have audited the compliance of the City of Providence, Rhode Island, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit IV). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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'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 on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

**Internal Control over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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.





**Exhibit I**  
(Continued)

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

**Schedule of Expenditures of Federal Awards**

We have audited the general purpose financial statements of the City as of and for the year ended June 30, 1999, and have issued our report thereon dated December 31, 1999. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (Exhibit II) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The City's general purpose financial statements include the operations of a component unit, the Providence Public Building Authority which received federal assistance during the year ended June 30, 1999. Our audit, described above, did not include the operations of that component unit because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

This report is intended solely for the information and use of the finance committee, elected officials, management, certain 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.

**KPMG LLP**

December 31, 1999

## CITY OF PROVIDENCE, RHODE ISLAND

## Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

<u>Federal grantor/pass-through grantor/ program title</u>	<u>CFDA number</u>	<u>Expenditures</u>
<b>U.S. Department of Housing &amp; Urban Development:</b>		
Community Development Block Grant	14.218	\$ 7,735,747
Housing for People With Aids	14.241	164,309
McKinney Homeless Shelter Grant	14.231	132,393
<b>U.S. Department of Education:</b>		
Pass-Through Grant from the State of Rhode Island:		
Adult Education - State Administered Basis Grant Program	84.002	156,355
Title I - Local Education Agencies	84.010	12,915,194
Immigrant Education	84.011	112,098
Special Education - State Grants	84.027	2,060,135
Vocational Education	84.048	1,087,603
Federal, State, and Local Partnerships for Educational Improvement	84.151	544,202
Immigrant Education	84.162	1,299,208
Eisenhower Mathematics and Science Education - State Grants	84.164	388,565
Magnet Schools	84.165	1,231,414
Drug Free Schools & Communities	84.184	568,014
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	320,440
Metro Reg Partnership	84.278	149,613
21 <sup>st</sup> Century Learning Programs	84.287	176,732
Title III, Education Technology	84.318	1,084,249
<b>U.S. Department of Agriculture:</b>		
Pass-Through from the State of Rhode Island:		
National School/Summer Lunch Program	10.555/10.559	6,986,788
<b>U.S. Department of Labor:</b>		
JTPA	17.250	1,570,245
JTPA III	17.246	610,544

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

<b>Federal grantor/pass-through grantor/ program title</b>	<b>CFDA number</b>	<b>Expenditures</b>
<b>U.S. Department of Health &amp; Human Services:</b>		
Office of Substance Abuse Prevention:		
SOF/SOC	93.194	\$ 152,901
Office of Refugee Settlement:		
Southeast Asian Youth & Family Development	93.576	161,341
<b>U.S. Department of Emergency Management Assistance:</b>		
Emergency Management Grant	83.534	128,650
Corporation for National and Community Service:		
Learn and Serve America	94.004	4,653
<b>U.S. Department of Justice:</b>		
M.O.R.E.	16.710	53,401
JUMP	16.726	14,520
COPS Universal Hiring	16.710	1,061,947
Local Law Enforcement Block Grant	16.592	994,589
<b>U.S. Department of Library Services:</b>		
Institute of Museum & Library Services	45.301	<u>56,250</u>
Total federal expenditures		\$ <u>41,922,100</u>

**CITY OF PROVIDENCE, RHODE ISLAND**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 1999

**(1) Summary of Significant Accounting Policies**

The accounting and reporting policies of the City of Providence, Rhode Island, are set forth below:

***Basis of Presentation***

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting.

**(2) School Cafeteria Programs**

The City contracts with the Marriot Corporation for the administration the National School Lunch and School Breakfast programs. Program expenditures in the accompanying schedule of expenditures of federal awards represent amounts paid to Marriot Corporation during 1999.



600 Fleet Center  
50 Kennedy Plaza  
Providence, RI 02903-9605

**Exhibit III**

**AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The City Council  
City of Providence, Rhode Island:

We have audited the general purpose financial statements of the City of Providence, Rhode Island, as of and for the year ended June 30, 1999, and have issued our report thereon dated December 31, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of current year findings and questioned costs (Exhibit IV) as items 99-1 through 99-11.





**Exhibit III**  
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the finance committee, elected officials, management and certain 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.

**KPMG LLP**

December 31, 1999

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 1999

**(1) Summary of Auditors' Results**

- (a) The independent auditors' report on the financial statements expressed an unqualified opinion.
- (b) Reportable conditions in internal control over financial reporting were identified some of which are considered to be material weaknesses.
- (c) No instances of noncompliance considered material to the financial statements were disclosed by the audit.
- (d) Reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were identified, one of which is considered to be a material weakness.
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
- (f) The audit disclosed findings required to be reported by OMB Circular A-133.
- (g) The City's major programs were:

<u>Name of federal program or cluster</u>	<u>CFDA number</u>
Title I – Local Education Agencies	84.010
Special Education – State Grants	84.027
Immigrant Education	84.162
National School/Summer Lunch Programs	10.555/10.559
COPS Universal Hiring	16.710
Community Development Block Grant	14.218

- (h) A threshold of \$1.26 million was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
- (i) The City did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

(2) **Relating to Financial Statements Findings Reported in Accordance with *Government Auditing Standards***

MATERIAL INTERNAL CONTROL WEAKNESSES RELATED TO THE CITY AND SCHOOL DEPARTMENT

**99-1: Resolution of Prior Year Comments**

Many improvements in internal controls were noted in the 1999 audit. These improvements allowed the financial statements to be issued several months earlier than in previous years.

However, some comments noted in prior year audits have not been corrected and, accordingly, have been repeated in the 1999 management letter.

The City Council or Finance Committee must continue working with department heads to ensure that the improvements do not deteriorate. Without the proper assignment of responsibility and accountability for the correction of these deficiencies and the cooperation of the personnel in the affected departments, the potential exists for financial information to be late in future years.

**Management Response:**

Federal programs at the Providence School Department, which have historically been a problem for the audit, has hired a new accountant and was not an issue this year. However, the Providence School Department is in the process of making improvements to their fixed asset tracking systems. The Water Supply Board also continues to improve.

JTPA was unable to satisfy the auditors' request for some financial information. JTPA is currently in the process of adding procedures to their accounting system that should alleviate these issue for future audits.

**99-2: Closing of the Month-End and Year-End Books**

Monthly closings and account analyses for the months in fiscal 1999, other than June, were not generally performed throughout the City.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

It is extremely important that all City departments perform basic monthly analysis of their accounts to help ensure that all activities are fairly and accurately presented in the City's books. While the Finance Department generally does a good deal of analysis on the activities of the general fund, we have found that the rest of the City departments as a whole do not do any structured analysis of their activities throughout the fiscal year. Compilation of data, basic account reconciliations, income and expense analysis and adjustments of errors is typically not done until and unless it is needed for the year-end audit. Monthly analysis of activities is particularly critical for special revenue and school funds where federal and state funds are involved.

Accordingly, the City needs to take immediate and effective action to get all departments throughout the City on a fixed and firm schedule for monthly analysis of activities as well as monthly and annual financial reporting. Without a structured plan, the City could receive inaccurate and stale financial information that could expose the City to the risk that assets may be misappropriated and not be detected in a timely fashion.

**Management Response:**

The City concurs that in certain areas (i.e.; JTPA, Civic Center, Fixed Assets and Taxes) need to be reconciled on a quarterly basis and will be this year.

**99-3: Taxes Receivable**

The City should, but does not, reconcile the tax receivable detail to the general ledger on a timely basis.

We recommend that taxes receivable detail ledgers be reconciled to the general ledger on at least a quarterly basis and ideally a monthly basis.

**Management Response:**

We concur with this comment but we are optimistic that for fiscal year 2000 these reconciliations will be performed quarterly. As of February 2000 this reconciliation is being done through December 1999.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**99-4: School Cash Accounts**

Several cash accounts are maintained by individual schools within the City without the knowledge or permission of the Providence School Department or Finance Department.

All cash within the City is the responsibility of the Treasurer and any accounts not established by the Treasurer should be closed immediately.

**Management Response:**

Management concurs. Individual schools in the City maintain several cash accounts.

The Director of Business Operations of the Providence School Department is currently taking the following corrective action:

1. The City Treasurer and the City Controller will be made signatories on all accounts with the City's federal tax identification number. All disbursements will be approved by the Finance Department and processed for payment by the Controllers Office, or

If the funds in these accounts are not public funds but are setup with the City of Providence's tax identification number, they will be closed, or

If there are legitimate reasons for an account not to be maintained by the City Controller and the City Treasurer the Director of Operations needs to document the reason to the City's Finance Department.

**99-5: School Fixed Assets**

Informal control exists over the movement of equipment, either to or from the administration building or between individual schools. In addition, the Providence School Department has great difficulty when comparing specific fixed assets maintained on the detailed fixed asset listing to the actual physical asset.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

We recommend the City implement a formal policy to monitor and control the movement of all major equipment, which would enable the fixed asset listing to be updated on a timely basis. This would ensure that responsibility for the fixed assets is appropriately assigned. In addition, we recommend an inventory be taken of all fixed assets, with each asset appropriately tagged. The physical inventory should then be reconciled to the detail fixed asset listing, with any adjustments appropriately made. A physical inventory will ensure the accuracy of records and will confirm the physical existence of these assets.

**Management Response:**

The Providence School Department currently does not have the resources in its current fiscal year budget to hire and deploy the manpower necessary to re-inventory all of the district's fixed assets.

Regarding the location of fixed assets previously recorded in the City's inventory; the Providence School Department proposes to select several items at five schools per month as a test of the validity and accuracy of the inventory system. A log will be maintained with the results. If the results of these tests are substandard, the Providence School Department will install a more formal system of tracking assets.

Management believes tracking the system on a regular basis will not allow the system to get out of hand, while providing information and control within the Providence School Department's available resources.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

MATERIAL INTERNAL CONTROL WEAKNESSES RELATED TO THE WATER SUPPLY BOARD

During the fiscal year 1999 audit, we noted the following significant comments that describe activities that are not consistent with sound fiscal practices:

**99-6: Financial Accounting Systems**

The Water Board's general ledger accounting system in place during fiscal year 1999 and the detailed accounts receivable system are not integrated. This setup requires the Water Board to manually input financial data into the general ledger system based on reports generated from billing system.

We recommend that the Water Board implement system upgrades immediately so that the billing system be integrated with the general ledger system.

**Management Response:**

The integration of the Customer Star II billing system has progressed slower than anticipated because Providence Water has been unable to hire qualified systems professionals at authorized salaries. To supplement this deficiency, Providence Water is utilizing our existing Customer Stars database to create detail monthly customer billing report. The revenue are booked with the same category used in Customer Star into Oracle general ledger, thereby reducing coding errors. In addition, reconciliation on accounts receivable is done quarterly now to ensure accuracy of the data.

**99-7: Financial Reporting**

We noted that although account reconciliations were performed for some of the larger balance sheet account balances (i.e.; accounts payable, accounts receivable) quarterly, reconciliations should be done on a monthly basis to help ensure that all activities are fairly and accurately presented in the Water Board's books.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Management Response:**

Providence Water has been doing quarterly reconciliation of all major balance sheet accounts. These accounts include accounts receivable, accounts payable, cash and due to due from between funds, and prepayments and other liabilities accounts. In fiscal year 2000, Providence Water now performs monthly closing and reconciliation on all these accounts.

**99-8: Accounts Receivable Reconciliations**

The Water Board currently does not perform periodic reconciliations of the accounts receivable balance reported in the general ledger to the detail accounts receivable ledger on a monthly basis. In addition, we noted that the Water Board did not perform periodic evaluations of the adequacy of the accounts receivable allowance.

We recommend that the accounts receivable detail ledger be reconciled to the general ledger on a monthly basis. Additionally, periodic analysis of the accounts receivable allowance should be performed to determine the adequacy of the allowance.

**Management Response:**

Providence Water now performs quarterly reconciliation on all balance sheet accounts including accounts receivable. In addition, we have developed procedures for the current fiscal year 2000 to perform accounts receivable reconciliation on a monthly basis and will review the adequacy of the allowance for doubtful accounts annually.

**99-9: Clean Water Finance Agency Cash**

In connection with the issuance of the \$12,000,000 1995 Series A Safe Drinking Water Revenue Bonds, issued by the Clean Water Finance Agency, the Water Board was responsible for maintaining a cash account. During the year, we noted that the Water Board did not record the activity in this account on the general ledger on a timely or consistent basis. We also noted that account reconciliations between the general ledger and the bank records were not performed on a timely basis.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Management Response:**

We are currently recording cash activities and reconciling those activities to the general ledger on a regular monthly basis effective July 1999.

**99-10: Construction in Progress - Reconciliation of Costs**

Currently, payroll costs associated with projects are reviewed and authorized, however, controls need to be further improved to help ensure that payroll costs are appropriately classified (expense versus capitalization) for internal and external reporting purposes.

To improve controls the Water Board should immediately begin reconciling costs, from the approved timesheets, charged to projects to the payroll and work order reports. This fiscal control should be performed on a monthly basis to help ensure that costs approved are all charged to projects and that all costs charged to projects are approved.

**Management Response:**

Providence Water has implement a new Abra payroll system to replace the outdated Datapoint system which was not Year 2000 compliant. In addition, the Hansen system has been upgraded to accept all timesheets including projects and work order timesheet. An automated procedure has now been developed which will interface all labor cost attach to projects and work order posted into Oracle general ledger. It is expected that this procedure will improve the accuracy of all labor and materials charged to construction in progress and ease reconciliation every quarter effective July 1999.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

MATERIAL INTERNAL CONTROL WEAKNESSES RELATED TO JTPA

**99-11: JTPA Grant Reconciliations**

Currently, the JTPA does not properly reconcile its grant records to its financial general ledger that in turn has resulted in a deficit fund balance situation as reported in its financial statements. In addition, the JTPA pools its grant funds when drawing down cash which makes specific matching of expenses and subsequent receipts difficult.

We recommend that the JTPA perform periodic reconciliations of its financial general ledger records to its grant data and “close out” its records annually to assure proper matching of expenses and revenues.

**Management Response:**

Providence/Cranston JTPA's fund balance deficit is a result of accrued expenditures which are recorded before the revenue is received or recognized. Subsequent revenue requested by title after year end have been recorded in the subsequent fiscal year.

The JTPA administrator and City Controller's Office are now ensuring that each request for funds is done so by title and a copy of general ledger, by title, is maintained for proper source documentation.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

NON-MATERIAL INTERNAL CONTROL WEAKNESSES ALL CITY DEPARTMENTS AND AGENCIES

**99-12: Retirement System**

The funded status of the retirement system continues to deteriorate. As of the date of the last actuarial valuation, the plan was significantly under funded.

**Management Response:**

The funding status of the retirement system is in a holding pattern until the COLA litigation presently before the Rhode Island Supreme Court is resolved.

The actuary's recommended employer contribution assumes COLA payments to certain classes of employees. The City's actual contribution assumes the consent decree will be vacated by the Court, resulting in no COLA's having to be paid.

**99-13: City Fixed Asset Inventory**

The City has not performed an inventory of its fixed assets in over five years. By not performing a periodic inventory of its fixed assets the City is susceptible to potential misappropriation of its fixed assets. In addition, a periodic inventory will also help to assure that the City's fixed asset records are properly reported.

We recommend that an inventory be performed over the City's fixed assets as soon as possible.

**Management Response:**

The City budget for fiscal 2000 included an appropriation to perform an inventory of fixed assets. The project should be awarded this spring and be completed in fiscal 2001.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**99-14: Water Board Wholesale Customer Receipts**

The Water Board utilizes lock box accounts for customers to remit payments as well as allowing customers to pay bills at the Academy Avenue location wherein the Water Board is directly responsible for the funds. We noted that wholesale customers currently do not remand payments to the lockbox, but instead make payments directly at the Academy Avenue office. Wholesale revenues tend to be large in nature, and by being processed directly by the Water Board, the controls over these revenues are decreased.

We recommend that the Water Board direct its wholesale customers to remand future payments to one of its lock box locations. By implementing this procedure, the Water Board will be able to strengthen its controls over wholesale revenues and will also reduce the risk and responsibility associated with collecting larger payments.

**Management Response:**

Wholesale customers have large bills and generally pay within 30 days. Processing the payments internally is faster than using the lockbox that would result in a two or three day delay in updating the account. Personnel within customer service are rotated through the various functions of the department providing better internal control than would be the case if a single individual *always* processed wholesale receipts.

**99-15: Water Board MIS Department Staffing**

With increased reliance on complex computerized systems at the Water Board, the MIS Department needs to invest in additional personnel in order to adequately support the systems in place at the Water Board. Currently the MIS Department appears to be under staffed which has led to the need to hire a private consultant to facilitate the MIS Department's operations. Due to strict residency and salary guidelines, the Water Board has been unable to hire additional qualified personnel for the MIS Department.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

We recommend that the Water Board address the staffing needs of the MIS Department which would reduce the need to hire more expensive outside consultants. Possible salary and residency requirement exemptions should be explored due to the highly competitive job market pertaining to MIS personnel.

**Management Response:**

Providence Water continues to use part time consultants to address information system support this year. Another MIS personnel has left Providence Water which will put more strain on current manpower. We will be investigating other possible solutions.

**99-16: Water Board and City Hall General Ledgers**

Currently, the Water Board maintains two separate general ledgers, a general ledger on City Hall's books and an internal general ledger. The Water Board utilizes its internal ledgers to track all of its accounting activity for internal financial reporting, reporting to the PUC, and reporting to the public via the audited financial statements. All transactions posted through the Water Board's internal system are duplicated in the City's general ledger system. This duplication of effort causes considerable unnecessary reconciliations between both general ledgers while providing minimal benefits.

With the Water Board's continued investment in computer systems and accounting personnel, the Water Board has the ability to process its accounting information without the need for duplicate general ledgers. We recommend that City Hall and Water Board initiate a plan to eliminate the need for duplicate general ledgers by utilizing the resources in place at the Water Board to track the financial progress of the Water Board. The elimination of the duplication process would be a cost benefit to both City Hall and the Water Board.

**Management Response:**

Providence Water management has opened discussion with the Controller's office in City Hall and is awaiting further discussion.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**99-17: Fleet Skating Center Advertising Services**

The Fleet Skating Center has been performing advertising services for Coke eventhough no formal contract has been finalized.

KPMG recommends that the City not perform these services before a contract has been finalized and agreed upon by both parties. Performing these services only when there is a finalized contract which has been approved by both parties lessens any potential liability that could occur as a result of performing these services and allows for better collections of amounts due based on the services which have been provided.

**Management Response:**

The contract with the sponsor is taking longer than expected to complete, however, the City wanted the advertising dollars from the opening day from the rink. The contract has now been completed and a check is expected for the total amount well before the end of this fiscal year.

**99-18: Civic Center Accounts Receivable Aging**

The City currently does not prepare an aging of its accounts receivable balance.

The City should prepare an aging of its accounts receivable and update the schedule on a regular basis. The accounts receivable aged trial balance is a useful tool to monitor the aging of invoices. The review of this aging can identify specific customers who may need follow-up billings and potential problems when customers are not fully satisfied with the City's product. Timely collection of accounts receivable will also improve the City's cash flow position.

**Management Response:**

Management concurs. Accounts receivable primarily relates to deferred advertising revenue. Deferred advertising revenue schedules are updated when both the client and civic center sign advertising contracts. Accounts receivable are currently being aged.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**99-19: Civic Center Bank Reconciliations**

The City prepares reconciliations on a monthly basis. These reconciliations are not signed and dated by the preparer and the reviewer.

KPMG recommends that reconciliations be signed and dated by both preparer and reviewer. Signing and dating reconciliations by both preparer and reviewer assures stronger controls over cash accounts.

**Management Response:**

Management concurs. Currently, all bank reconciliations are being signed and dated by both the preparer and the reviewer.

**99-20: Civic Center Related Parties**

The Operations secretary is the wife on the operations manager.

KPMG recommends that duties related to payroll be given to someone other than the current Operations secretary since she calculates employee hours and her husband, the Operations manager, approves them.

**Management Response:**

Management concurs. The wife of the Operations manager no longer does the payroll for the Operations area.

**99-21: Civic Center Billings**

The Civic Center failed to issue a \$50,000 bill in July 1998 in accordance with an advertising contract. The failure to bill was due to miscommunication between the marketing department, which is responsible for maintaining the contract and the Accounting Department, which is responsible for billing. The Civic Center discovered the error during August 1999 and subsequently billed the City.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

The Civic Center should strengthen communications between the accounting department and the marketing department to assure timely billing of all contracts.

**Management Response:**

Management concurs. Due to a large turnover of employees in the Accounting and Marketing departments, an advertising contract was not billed in a timely manner. Accordingly, a deferred advertising schedule is now prepared reflecting all advertising contracts, contract period, contract amount and monthly amortization.

**99-22: School Fixed Asset Tracking System**

The current system by which the City records fixed asset acquisitions and disposals presents a duplication of efforts. These acquisitions and disposals are recorded at the Providence School Department on a totally different fixed asset system and then are recorded again on the City's fixed asset listing.

We recommend that the two systems be integrated so that fixed asset acquisitions and disposals are recorded only once by the City. This integration will eliminate the duplication of effort observed when recording fixed asset acquisitions and disposals. Additionally, the fixed asset listing prepared by the City will be more accurate due to the timesaving that this integration provides

**Management Response:**

The Providence School Department uses the City Fixed Asset System. The Providence School Department inventories items not required by the City System, and must be able to sort records by categories,

All the information is recorded on the City form. If the original is sent to the City, a duplicate will be used for Providence School Department inventory requirements.

The systems can be integrated if the City will accept items below the value threshold.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**(3) Findings and Questioned Cost Relating to Federal Awards**

**Reference Number:** 1999-01  
**Federal Agency and Pass-Through Entity:** U.S. Department of Justice  
**CFDA Number:** 16.710  
**Program:** COPS Universal Hiring  
**Finding:** Reporting Requirement

**Description:**

Recipients of federal funds are required to submit quarterly Financial Status Reports within 45 days after the end of the reporting quarter. KPMG noted that the Financial Status Reports were not filed on a timely basis during fiscal 1999.

**Questioned Costs:**

None

**Recommendation:**

The Providence Police Department should ensure that these reports are filed within 45 days after the end of each quarter.

**Client Response:**

During the week of August 16, 1999, the auditors from the United States Department of Justice came in to review our procedures. At that time they indicated that the reports were not being submitted in a timely fashion. As a result of their findings, the problem was rectified prospectively by filing the reports within the allowable 45-day period. Since that time reports have been filed within the allowable period for the quarters ended September 30, 1999 and December 31, 1999.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Reference Number:** 1999-02  
**Federal Agency and Pass-Through Entity:** U.S. Department of Education  
State of Rhode Island  
**CFDA Number:** 84.010  
**Program:** Title I  
**Finding:** Fund Allocations Requirement  
**Description:**

According to the Title I Compliance Supplement, if an LEA serves any attendance area with less than a 35% poverty rate, the LEA must allocate to all its participating areas an amount per poor child that equals at least 125% of the LEA's Part A allocation per poor child.

The Providence School Department allocated funds to an attendance area that was below 35% poverty. Therefore, the Providence School Department was required to allocate to all its participating areas an amount per poor child that equals at least 125% of the LEA's Part A allocation per poor child, and did not.

**Questioned Costs:**

None

**Recommendation:**

The Providence School Department should review their allocation and ensure that either they do not allocate funds to an attendance area below 35% poverty, or they allocate 125% of the LEA's Part A allocation per poor child to all participating attendance areas.

**Client Response:**

The school in question is the Martin Luther King, Jr. school. The percentage of poverty in the attendance area is 34%. However, based on school enrollment at the Martin Luther King, Jr. school, the poverty rate is 54% making it eligible as a schoolwide project. We are researching IASA regulations and have asked the Rhode Island Department of Education for an opinion on this finding.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Reference Number:** 1999-03

**Federal Agency and Pass-Through Entity:** U.S. Department of Education  
State of Rhode Island

**CFDA Number:** 84.010

**Program:** Title I

**Finding:** Support for Salaries and Wages Requirement

**Description:**

OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, sets forth requirements for federal funds. Attachment B - Selected Items of Cost Section 11 - Compensation for Personnel Services paragraph (h). Support for salaries and wages provides specific requirements for personnel activity reports and for certain certifications. Charges to federal awards for salaries and wages will be based on payrolls documented in accordance with generally accepted practice of the governmental unit, where employees are expected to work solely on a single federal award, charges for their salaries will be supported by periodic certification that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

The Providence School Department allocates employee salaries to federal awards through the Personnel action form which lists the fund code (federal award allocation), rate of pay and is signed by a Providence School Department official. Personnel action forms are initiated when an employee is hired and when there is a pay rate change and are not prepared on a semi-annual basis. The Providence School Department did not have the required certifications for their employees that are expected to work solely on the Title I program and they were not prepared on a semi-annual basis.

**Questioned Costs:**

Unknown

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Recommendation:**

The Providence School Department should institute a requirement for the certification of employees that are expected to work solely on a single federal award on a semi-annual basis.

**Client Response:**

The Director of Federal Programs submits to the payroll office each September a list of Personnel (Teachers, Teacher Aids and Administrators) charged off to the Title I Grant. These personnel are all 100% FTE's and are not pro-rated on any other grants. They are certified for the duration of the school year barring resignation or retirement. The Director of Federal Programs monitors all federal personnel charged off to all grants to ensure that they are being paid by the appropriate funding source for which they have been certified. The Payroll Office in conjunction with the Federal Programs Office keeps more than adequate documentation on the payroll status of employees charged off to federal grants consistent with accepted accounting practices and federal statutes.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Reference Number:** 1999-04

**Federal Agency and Pass-Through Entity:** U.S. Department of Education  
State of Rhode Island

**CFDA Number:** 84.162

**Program:** Immigrant Education

**Finding:** Cash Management Requirement

**Description:**

Recipients of federal funds are required to institute procedures to minimize the amount of time between the receipt and disbursement of federal funds.

The Providence School Department includes actual payments, the next months anticipated payroll expenses, and any encumbered amounts in their drawdown requests. When the subsequent drawdown request is made, any encumbered amounts that are remaining from the previous drawdown are subtracted from the amount encumbered as funds have already been received for those amounts. KPMG noted that the Providence School Department does not make monthly drawdown requests for each of their federal programs. Therefore, funds may be encumbered for a substantial period of time prior to being expended, if they are spent at all. Consequently, the Providence School Department may have funds for several months prior to disbursal. While it is true that these funds may be used to pay other expenditures in the meantime, KPMG noted that the first drawdown for Immigrant Education was not fully liquidated for approximately three months.

**Questioned Costs:**

None

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Recommendation:**

The Providence School Department should review their drawdown method in an effort to minimize the amount of time between receipt and disbursement of federal funds. Since drawdowns are not made on a monthly basis, any encumbrances remaining from the previous drawdown are at least 60 days old. One possible variation of the drawdown method that would help to limit this exposure would be to request actual expenditures (paid or entered into accounts payable to be paid) plus the following month's estimated payroll expense, rather than including encumbrances as it is not readily determinable when these encumbrances will be liquidated, if at all.

**Client Response:**

The Providence School Department agrees with the recommendation and will implement said recommendation during the 2000 – 2001 fiscal year.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Reference Number:** 1999-05

**Federal Agency and Pass-Through Entity:** U.S. Department of Agriculture  
State of Rhode Island

**CFDA Number:** 10.555

**Program:** National Cluster/School Lunch

**Finding:** Verification Requirement

**Description:**

By December 15 of each school year, the SFA (or State in certain cases) must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals, unless the SFA is otherwise exempt from the verification requirement. The verification sample size is based on the total number of approved applications on file as of October 31 (7 CFR section 245.6a(a)).

KPMG noted that the appropriate number of required verifications were being performed; however, in one out of 25 cases sampled KPMG noted that the documentation obtained was inadequate to determine eligibility, yet the students continued to receive free lunch. In another case, income documentation obtained indicated that the student should have been changed from "Free" to "Reduced" status.

**Questioned Costs:**

Note: The below calculations are for breakfast and lunch. Federal reimbursements for free breakfast and lunch in 1999 were \$1.0725 and \$1.9425, respectively. Federal reimbursements for reduced breakfast and lunch in 1999 were \$.7725 and \$1.5425, respectively.

Based on a school year of 180 days, actual questioned costs would be  $\$3.715 \times 180 = \$668.70$ .

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Recommendation:**

KPMG recommends that the Providence School Department instruct their personnel performing verifications as to what information constitutes proper verification. In addition the Providence School Department could perform random reviews of verifications performed to ensure that they are being properly conducted.

**Client Response:**

The Providence School Department requires all appropriate documentation during the application process. The Providence School Department will emphasize to the responsible personnel the importance of a completed application file and will conduct more reviews of the information.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Reference Number:** 1999-06

**Federal Agency and Pass-Through Entity:** U.S. Department of Agriculture  
State of Rhode Island

**CFDA Number:** 10.555

**Program:** National Cluster / School Lunch

**Finding:** Inventory Requirement

**Description:**

Accurate and complete records shall be maintained with respect to the receipt, distribution/use, and inventory of donated foods including end products processed from donated foods. Failure to maintain records required by 7 CFR Section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity is liable for the value of the food or replacement of the food in kind (7 CFR Sections 250.16(a)(6) and 250.15(c)). Distributing and recipient agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency, which contracted with or maintained the storage facility.

KPMG noted that while an annual physical inventory is taken, there are no perpetual records kept for reconciliation purposes.

**Questioned Costs:**

Unknown

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Recommendation:**

KPMG recommends that the Providence School Department maintain a perpetual inventory. We noted that the warehouse is already obtaining all of the required information for the maintenance of a perpetual inventory. This information simply needs to be entered into a tracking system (preferably a computerized tracking system) that will allow the warehouse to track the items and the quantities that should be on hand. In addition, periodic comparisons should be made between the perpetual records and the actual items on hand.

**Client Response:**

A perpetual inventory system has been established and will be maintained in the food warehouse.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

**Reference Number:** 1999-07

**Federal Agency and Pass-Through Entity:** U.S. Department of Education  
State of Rhode Island

**CFDA Number:** 84.162

**Program:** Immigrant Education

**Finding:** Eligibility and Reporting Requirement

**Description:**

*Beneficiary Eligibility:* Direct beneficiaries are local educational agencies. Indirect beneficiaries are immigrant children enrolled in public and non-public school schools under the jurisdiction of or within the district served by the LEAs. For an LEA to be eligible, the enrollment of immigrant children in elementary and secondary public and non-public schools is at least 500 or 3% of the total enrollment. To be counted, immigrant children must have been enrolled in U.S. schools for less than three years.

*Special Reporting:* LEAs and other subrecipients are generally required to report counts on immigrant children in public and non-public schools.

KPMG noted that the Providence School Department did not have proper procedures and controls in place to determine eligibility and provide accurate reporting to the state of Rhode Island for the number of immigrant children in the Providence school system. Given that funding levels are determined based on the number of immigrant children and that eligibility is contingent upon the enrollment of immigrant children in elementary and secondary public and non-public schools being at least 500 or 3% of the total enrollment, KPMG considers this to be a **material weakness in internal controls** over both eligibility and reporting. Since accurate counts are not available to determine whether the Providence School Department was eligible to receive funding, KPMG cannot determine the amount of questioned costs in this program for fiscal year 1999.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Recommendation:**

The Providence School Department should institute proper procedures and controls to ensure that accurate counts of immigrant children are made and that adequate support for the counts reported to the state of Rhode Island are maintained.

**Client Response:**

The Providence School Department concurs with the recommendation and has instituted a new software program to better track immigrant students who reside in the country for less than three years.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Reference Number:** 1999-08

**Federal Agency and Pass-Through Entity:** U.S. Department of Education  
State of Rhode Island

**CFDA Number:** 84.162

**Program:** Immigrant Education

**Finding:** Allowable Costs Requirement

**Description:**

Funds may be used to: (1) provide supplementary educational services for immigrant children to achieve a satisfactory level of performance; (2) provide basic instructional services directly attributable to the presence of immigrant children; and (3) provide in-service training for personnel instructing immigrant children.

KPMG noted that the Providence School Department purchased computers with funds from the Immigrant Education Grant. While the computers themselves are allowable costs, these computers are being used for instructional purposes as part of the "Bi-Lingual" and "English as a Second Language" programs. Although immigrant children are using these computers, they are also being used by a majority of students that are not immigrant children. In other words, the basic instructional services being provided using these computers are attributable to both immigrant and non-immigrant children.

**Questioned Costs:**

Unknown

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Recommendation:**

The Providence School Department should ensure that expenditures made with Immigrant Education Grant funds are attributable directly to immigrant children as opposed to being attributable to both immigrant and non-immigrant children.

**Client Response:**

The Improving America Schools Act contained considerable flexibility for consolidating an array of funding sources to meet the needs of all students via schoolwide projects and improve achievement of all students in a school. The Providence School Department has spent over \$10 million since 1997 through E-Rate and a variety of federal and state funding sources so that every school can place six computers in each classroom committed to the Internet. Immigrant Education Grant dollars spent on computers represent less than 1% of the total dollars spent since 1997. The immigrant students in ESL/bilingual classes are utilizing computers purchased from a variety of consolidated funding sources, including federal, state, local and E-rate.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Reference number:** 1999-09

**Federal Agency and Pass-Through Entity:** U.S. Department of Education  
State of Rhode Island

**CFDA number:** 10.555

**Program:** National School Lunch Program

**Finding:** Allowable Costs Requirement

**Description:**

During the 1999 A-133 Single Audit of the National School Lunch Program for the City of Providence, KPMG uncovered questioned costs. These costs did not comply with the stated OMB Cost Principles Circulars which deal with the National School Lunch Program.

The Providence School Department was reimbursed through the National School Lunch Program for four \$6,000 payments to each of the four high schools in the City of Providence. These payments originated in June 1997 when Marriot Corporation disallowed the use of vending machines at the schools. The money received from the vending machines owned by the schools had previously been used for other school activities such as yearbook production costs. In order to make up for the loss of vending machine revenues, there was an agreement whereby the high schools would receive a \$6,000 dollar lump-sum payment each year in lieu of the vending machine revenue. The payments to the high schools, totaling \$24,000 were paid by the Providence School Department using National School Lunch Program funds which is not an allowable cost per the program guidelines.

**CITY OF PROVIDENCE, RHODE ISLAND**

Schedule of Current Year Findings and Questioned Costs

**Questioned Costs:**

\$24,000

**Recommendation:**

We recommend that the Providence School Department discontinue the process of reimbursing the high schools with National School Lunch Program funds.

**Client Response:**

Please be advised that the Providence School Department does not agree with the recommendation offered by the audit firm. The Providence School Department Lunch Program receives money from various sources throughout the course of the school year. Money is received from the federal government, vending machines, and students as well as adults who purchase their lunches.

Funds paid to the high schools are from revenue generated by vending machines that had previously been operated by the schools. The Providence School Department does not think the practice of distributing funds to the schools is in violation of any guidelines under the National School Lunch Program because federal funds are not distributed for this purpose. The federal funds are deposited in a separate account than the other funds and are distinguishable.