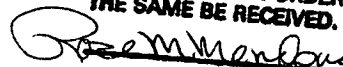


IN CITY COUNCIL

SEP 18 1986

READ

WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED. CLERK

CITY OF PROVIDENCE, RHODE ISLAND

Management Letter
and
Single Audit Report

June 30, 1985

CITY OF PROVIDENCE, RHODE ISLAND

Table of Contents

	<u>Page</u>
I. Management Letter	
City Operations	4
Water Supply Board	15
Providence Civic Center Authority	19
Providence Redevelopment Agency	22
II. Comments Relating to Federal Financial Assistance Programs	
Auditors' Report on Compliance With Laws and Regulations	25
Auditors' Report on Internal Controls	27
Department of Planning and Development	30
Parks Department Grants	44
Revenue Sharing	48
School Department	49
III. Supplementary Schedule of Federal Assistance	
Auditors's Report on Supplementary Schedule of Federal Financial Assistance	54
Supplementary Schedule of Federal Financial Assistance	55

CITY OF PROVIDENCE, RHODE ISLAND

Management Letter

June 30, 1985



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
40 Westminster Street
Providence, Rhode Island 02903

Honorable Mayor and
Members of the City Council
City of Providence, Rhode Island

We have examined the general purpose financial statements of the City of Providence, Rhode Island, for the year ended June 30, 1985, and have issued our report thereon dated November 22, 1985. Our report on the general purpose financial statements was qualified due to the following:

- Uncertainties regarding outstanding litigation and claims
- Pension costs are recorded in a manner which is not in conformity with generally accepted accounting principles
- The combined financial statements do not include a general fixed asset group of accounts

As part of our examination we made a study and evaluation of the systems of internal accounting control of the City to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit for Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office. On page 27 we have reported separately on the results of our study and evaluation of internal accounting and administrative controls used in administering Federal financial assistance programs. The results of our study and evaluation of internal controls other than those used in administering Federal financial assistance programs are presented herein on pages 4 to 23. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- Revenue/receipts
- Purchases/disbursements
- Payroll

Our study and evaluation included the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of auditing procedures necessary for expressing an opinion on the general purpose financial statements of the City of Providence. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of control identified above.

The management of the City of Providence, is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Providence, taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed certain conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the City of Providence, Rhode Island, may occur and not be detected within a timely period. Such conditions are referred to herein as "material weaknesses." In addition, we have noted and commented upon nonmaterial weaknesses for which corrective action by management may be practicable in the circumstances.

Finally, a supplementary schedule of the City's Federal financial assistance programs and our auditors' report thereon is included beginning on page 53.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our examination of the 1985 general purpose financial statements and this report does not affect our report on these general purpose financial statements dated November 22, 1985.

This report is intended solely for the use of management and applicable Federal regulatory agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City of Providence, Rhode Island, is a matter of public record.

Peat, Marwick, Mitchell & Co.

November 22, 1985

CITY OPERATIONS

A. STATUS OF PRIOR YEAR COMMENTS

Control Consciousness

Progress still needs to be made in the area of storage of accounting records and blank checks. See current year comment No. 7.b.

Capital Projects

A computerized accounting system has been developed which keeps track of expenditures by project.

Bank Accounts

While most frequently used bank accounts are reconciled to accounting control balances on a regular basis, there are still problems in the following areas:

- Certain accounts are not monitored.
- Problems with lists of outstanding checks.
- Responsibilities of each department are not clearly defined.

See current year comment no. 1.

EDP Operations

The City is in the early stages of a project to completely redesign its data processing functions. This should continue to be a high priority. See current year comment No. 4.

General Ledger

Progress was made in fiscal year 1985 and this interfund reconciliation procedure has been improved.

Cash Management

No such transactions as described in our 1984 report were noted in fiscal year 1985.

Purchasing Procedures

Based on our examination, it appears that there is still need for formalization and improvement of certain policies and procedures. See current year comment No. 8.

CITY OPERATIONS, CONTINUED

Revolving Funds

Many needless funds were still in existence at June 30, 1985, however, management has informed us that this area will be addressed soon.

Professional Staff

The need for additional qualified accounting personnel is still present, particularly as the City intends to install new EDP/Accounting systems. See current year comment No. 9.

Fiduciary Funds

Progress was made in bringing certain transactions under the control of the Controller's office. However, the basic accounting system is still very cumbersome and does not easily provide useful financial information.

See current year comment No. 2 regarding accounting systems.

Fixed Assets

No progress has been made in preparing comprehensive fixed asset records for the City.

See current year comment No. 7.

B. CURRENT YEAR COMMENTS

Material Weaknesses

1. BANK ACCOUNTS

a. Finding - Reconciliations

At the present time, certain bank account reconciliation procedures are performed by the Treasurer's Office and certain procedures are performed by the Controller's Office. Certain bank reconciliations are either not performed or are performed on an untimely basis and as a consequence, certain problems sometimes go undetected. A particular area of concern is preparation of lists of outstanding checks. Many errors were noted on such lists during our examination. Further, for some bank accounts, no lists of outstanding checks are prepared at all by the Treasurer's Office or any other office.

CITY OPERATIONS, CONTINUED

Recommendation

It appears that some of the problems noted above could be alleviated if responsibility for reconciliations of the bank statements to general ledger or control balances was assigned to one department only. A review of the procedures currently performed by the Treasurer's Office personnel should be made to determine which, if any, procedures performed there should be continued or perhaps transferred to the Controller's Office.

It should also be understood that bank reconciliations should only be performed by personnel who have no disbursements-related duties nor any general ledger entry responsibilities.

b. Finding - Account Control

In addition to "City Operation" bank accounts to which Finding a. refers, there are many other bank accounts which are not under the control of the Controllers and Treasurers Office at all. These include many accounts in the Department of Planning and Development, Federal Programs Department, Parks Department, as well as many accounts which were not receiving the attention of management.

Recommendation

Consideration should be given to consolidating the various disbursements functions. This could potentially result in significant efficiencies.

In addition, all unmonitored accounts should be closed out or assigned to a specific person or department. A list of these accounts has been provided to management.

c. Finding - Probate Court Accounts

The bank accounts maintained by Probate Court were not being reconciled to the underlying accounting records. Accordingly the possibility exists for errors to be undetected.

Recommendation

Probate bank accounts should be reconciled on a regular basis by a person who is independent of the record-keeping and disbursements function.

CITY OPERATIONS, CONTINUED

d. Finding - Police Department/Municipal Court

The Police Department and Municipal Court use a separate bank account to deposit parking fines and other collections. This bank account is not under the control of the Controller's Office nor the Collector's Office and is not controlled on the General Fund general ledger. Deposits are held in a safe and deposited to this account only once per week. Then the week's collections are remitted to the Collector's Office. Police Department Municipal Court personnel have signatory authority over the account. Personnel handling such cash and accounts are not bonded.

It was also noted that the bank account statement was not being reconciled to underlying accounting records.

Recommendation

To improve internal controls it is recommended that Municipal Court collections be remitted directly to the Collector's Office daily. Persons handling cash and deposits should be bonded.

2. ACCOUNTING SYSTEMS

Finding

Many of the accounting systems of the City are inadequate for providing useful and timely financial information. The accounting systems of the Employee Retirement System and certain Federal Programs are extremely cumbersome and suffer from insufficient charts of accounts. As a consequence, a number of man hours must be spent by the Controller's Office and other departments assembling financial information for financial statement and management purposes.

Recommendation

As noted in comment No. 4, the City will eventually be implementing new data processing systems. Concurrent with this project, appropriate charts of accounts and funds format should be developed which will meet all financial reporting needs. Particular attention needs to be devoted soon to ensuring that transactions will be processed properly on enhanced charts of accounts.

3. PROPERTY TAXES AND OTHER RECEIVABLES

a. Finding - Reconciliations

The subsidiary ledgers of the following accounts receivable had not been reconciled to general ledger or other control totals during the year:

CITY OPERATIONS, CONTINUED

- Property taxes receivables
- Employee loans

- Hurricane barrier assessment

Recommendation

The receivable subsidiary ledgers should be reconciled to the general ledger control on a regular basis (monthly). Any variances should be investigated and resolved. The responsibilities of the Collector's Office and the Controller's Office in this area should be clarified. Management should ensure that there is sufficient cross-training of personnel to perform these duties.

b. Finding - Abatement Certificates

It was noted that many certified copies of tax abatement certificates were missing from the file maintained in the Collector's Office. Several certificates were also noted to be left unfiled on a desk.

Recommendation

Control over certified tax abatement certificates should be improved to ensure complete and accurate records.

4. DATA PROCESSING OPERATIONS

General Comment

The City is currently undertaking a study which is expected to lead to a project to develop and acquire a comprehensive new data processing system including software and hardware. The intent is for the new system to handle the needs of all user departments within the area of general City operations. This is an important project and should be given the highest priority. Our review of the current Data Center operations noted several areas of concern for which corrective action should be taken. City management should also ensure that the new data processing system is designed with these considerations in mind as well.

a. Finding - Librarian Function

There is no librarian function for the custody of machine-readable programs and data files. Currently all physical media (tapes, disks) reside in the computer room.

Recommendation

All physical media (tapes and disks) should be removed from the computer room and placed in the custody of an individual whose function is to provide access to the media only as required.

CITY OPERATIONS, CONTINUED

b. Finding - Disaster Recovery Plan

The Data Center currently has a written disaster recovery plan. This plan, however, is not complete and does not provide enough detail information to enable the City to effectively recover from a disaster. In addition, all the responsibility for recovery has been placed on the data center manager who may or may not be available in a disaster.

Recommendation

The existing disaster recovery plan can provide a base for the development of a more detailed plan. We recommend that the Data Center expand the level of detail in the plan to include:

- Step by step recovery procedures
- Delineation of user/data processing personnel responsibilities
- Periodic review, update and testing of the plan
- Identification of specific processing requirements and priorities for critical applications (i.e.: payroll, property taxes)

c. Finding - Data Center Physical Environment

The physical environment of the computer department is deficient in the following areas:

- Lack of overall space
- Minimal fire control and detection equipment
- Lack of storage space

Recommendation

The City should consider expanding the computer department space. Additionally, improved fire protection equipment should be acquired for the computer room.

d. Finding - Physical Access Controls

Currently, there is generally unrestricted access to four programmer terminals located on the first floor. During the business day this room remains unlocked. Additionally, we observed a programmer terminal that was "logged on" to an application program and was left unattended for over a 20 minute period.

CITY OPERATIONS, CONTINUED

Recommendation

We suggest the installation of a door lock, to restrict access to authorized personnel.

Additionally, terminals should be automatically logged off if left unattended for a specified period of time.

e. Finding - Logical Access Controls

Currently, the prior data center manager still has logical access to all of the City's applications programs.

Recommendation

The prior data center manager's access to the City's application programs should be restricted.

f. Finding - Changes to Production Programs

The new source and executable code of modified programs are moved into production libraries, without recompilation. This procedure may:

- Result in a mismatch between the production source and executable code.
- Permit a programmer to disguise an unauthorized program modification, by compiling the program and then deleting the unauthorized modification prior to it being put into production.

Recommendation

Productions programs that have been modified should be recompiled as a prerequisite to being put back in production.

g. Finding - Documentation Standards

The quality of documentation varies from system to system. Due to their age, the overall quality of program level documentation is lacking in certain systems. This makes maintaining and enhancing these systems very difficult.

Recommendation

As noted previously, the City is considering conversion to new EDP software systems. Concurrent with that project the City should obtain and maintain systems documentation meeting generally accepted documentation standards.

CITY OPERATIONS, CONTINUED

h. Finding - Check Storage

During a visit to the computer room, we noted that two open boxes of blank payroll checks were being stored there.

Recommendation

Custody and control of documents such as blank checks should be maintained outside the EDP department and only those checks required for current processing needs should be released to data processing personnel.

5. EMPLOYEE RETIREMENT SYSTEM

a. Finding - ERS Plan Document

Responsibility for maintaining a complete and accurate copy of the ERS Plan document, including all amendments has not been previously assigned to anyone and in fact, the City does not have such a record. The Plan document is important because it governs the administration of the ERS including the specific provisions for employee benefits.

Recommendation

It is our understanding that the City Solicitor is currently assembling an ERS Plan document. It is suggested that permanent responsibility be assigned to someone for maintaining a complete and accurate ERS Plan document.

b. Finding - Employee Data

Certain errors were noted in testing the accuracy of the employee census data which is used by the City's actuary. The errors included inaccurate salary information, inaccurate age/hire date information, as well as the inclusion of certain employees who had been terminated.

Recommendation

The causes for the errors noted in the salary information should be eliminated. The City should consult with its actuary as to how the quality of information could be improved.

CITY OPERATIONS, CONTINUED

6. INTERNAL CONTROLS - PAYROLL

Finding

It was noted that there is often a significant lag between the time an employee begins to work and the time of the notification of this event reaching the payroll department. Accordingly, cases were noted in which payroll checks were not prepared for new employees. A significant amount of clerical time is devoted to the correction of these matters by the payroll department.

Recommendation

Employee turnover and hirings should be better controlled in a centralized manner by the Personnel Department so that these events can be processed properly on the payroll records.

7. FIXED ASSETS

Finding

As we have previously mentioned, the City does not have comprehensive fixed asset accounting records although we have been informed that the City does maintain an inventory listing of fixed assets owned. Sound financial administration in safeguarding the City's investment in fixed assets is of utmost importance in the exercise of stewardship responsibilities. These responsibilities can be effectively discharged only through adequate fixed assets accounting. Preparation and maintenance of fixed asset records and accounts will provide several benefits:

- Fixed assets can be periodically inventoried.
- Responsibility for custody of fixed assets can be clearly established.
- Information regarding sources of supply, prices, and useful lives will be readily available.
- Records will be readily available to substantiate the amount of grants used to finance expenditures for fixed assets. This is important to obtain reimbursement for the use of buildings and equipment in Federal and state aid programs.
- Information is available to substantiate losses recoverable from insurance.

CITY OPERATIONS, CONTINUED

Recommendation

The City should undertake the establishment of comprehensive fixed asset records. The City should also implement controls and procedures enabling it to maintain control over the fixed assets. These procedures should include:

- Control over the proper input into the records for additions, sales, abandonments, and transfers.
- Periodic inventory of fixed assets by location.

The following matters are considered to be nonmaterial weaknesses for which corrective action may be practicable.

8. PURCHASING SYSTEM

Finding

As we have noted in prior years, the guidelines are not clear with respect to "direct payments" as opposed to those disbursements which are subjected to the normal purchasing controls. Certain transactions were encountered which were handled as direct payments which could possibly have been handled via the purchase order system. For instance, in some cases when a major contract is awarded, all subsequent payments under that contract are treated as direct payments.

Instances were also noted in which three written quotations were not obtained for purchases in amounts from \$500 to \$2,000 as required by the City Charter. While there may be extenuating circumstances in certain cases, the Charter and City policy is not clear on how such cases should be handled.

Recommendation

The policies and procedures which should be followed by purchasing documentation including the use of "direct payments" as well as the competitive bidding requirements should be clarified.

9. ACCOUNTING PROFESSIONAL STAFF

Finding

Many of the functions performed in the Accounting Department (Controller's Office) require personnel with an appropriate level of accounting expertise and experience. The department at the present time does not have enough personnel with the necessary expertise to adequately handle the many difficult accounting tasks or improvements in internal control facing the City. This is especially true due to recent personnel turnover within the department and considering the implications of the City's plans with respect to new EDP systems.

CITY OPERATIONS, CONTINUED

Recommendation

We recommend that the City add additional professional personnel to supplement the accounting staff. This will result in more efficient operations and the ability to properly monitor internal accounting controls.

PROVIDENCE WATER SUPPLY BOARD

A. STATUS OF PRIOR YEAR COMMENTS

Fixed Asset and Inventory Ledgers

The inventory subsidiary ledger agreed to the general ledger at June 30, 1985 due to adjustments made to the general ledger based on the physical inventory taken for year end.

No progress has been made on the fixed asset detail subsidiary ledger. See current year comment No. 1.

Accounts Receivable Ledger

The accounts receivable subsidiary ledger is still not being reconciled to the general ledger.

Inventory Controls

Progress has been made in that a physical inventory was taken at year end and the general ledger was reconciled accordingly. However, more improvements could be made. See current year comment No. 2.

Segregation of Duties

No progress has been made. See current year comment No. 3.

Utility Plant Retirement Accounts

This recommendation was implemented.

Water Meter Sales

This recommendation was implemented.

Interfund Account

Some progress was made, however the reconciliation procedure needs to be improved. See current year comment No. 4.

Collectibility of Receivables

The aging of receivables as of June 30, 1985 was improved over that of the previous year. However, improvements should be made in the management information reports concerning the aging of receivables. See current year comment No. 5.

PROVIDENCE WATER SUPPLY BOARD, CONTINUED

B. CURRENT YEAR COMMENTS

The following conditions are considered to be material weaknesses.

1. RECONCILIATION OF SUBSIDIARY LEDGERS TO THE GENERAL LEDGER

Finding

The subsidiary ledgers for the following accounts did not agree to the general ledger at year end:

- accounts receivable
- accounts payable
- fixed assets

Recommendation

Reconciliations between all subsidiary ledgers and the general ledger should be performed on a regular basis. All variances should be investigated and resolved in a timely manner.

2. INVENTORY CONTROL

Finding

Due to the time lag occurring between the posting of inventory transactions to the inventory subsidiary ledger and to the general ledger there is always a difference between these two records. This occurs because each record is posted from a different source.

Recommendation

Both the subsidiary ledger and the general ledger inventory balance should be updated from the same information and at the same time. The subsidiary should be reconciled periodically to the general ledger and any differences should be investigated and corrected.

3. SEGREGATION OF DUTIES

Finding

Data processing personnel are responsible for the majority of adjusting entries made to the general ledger. This results in reduced internal controls because there is no review of these entries by an independent employee.

Recommendation

Proper segregation of duties requires that data processing personnel be precluded from originating adjusting entries. At a minimum all such entries should be reviewed and approved by an individual independent of the data processing function.

PROVIDENCE WATER SUPPLY BOARD, CONTINUED

4. INTERFUND ACCOUNT

Finding

Since the Water Supply Board does not have its own cash account all cash receipts and disbursements are handled through the general fund of the City. These transactions are recorded in an interfund account on the WSB books and on the City's books. These two accounts must be reconciled to assure that the cash transactions recorded in the general fund are accurately being recorded on the WSB books.

During the year, an attempt was made by City and WSB personnel to agree on the balances of WSB transactions processed by the City. However, the extra and final step of reconciling the due to/due from balance was not performed.

Recommendation

The due to/due from interfund balances should be reconciled on a regular basis.

5. ACCOUNTS RECEIVABLE COLLECTIONS

Finding

During fiscal 1985 an improvement was noted in the amount of past-due accounts. However, WSB does not receive detailed aging reports on a regular basis and does not have any formal policies and procedures with respect to collections.

Recommendation

Aging reports should be developed to provide useful information as to the amount and extent of past-due receivables. These reports should be obtained regularly; at least monthly.

Specific policies and procedures should be adopted to formalize collection procedures and the responsibility for collections should be assigned to a specific person.

6. FIXED ASSET RECORDS

Finding

Utilities are required to maintain records which can be summarized into accounts prescribed by the Public Utilities Commission (PUC) for required periodic reporting. The utility plant accounts are extensive in number and contain considerable detail with regard to costs to be capitalized. The extent of the detail indicates the importance of the

PROVIDENCE WATER SUPPLY BOARD, CONTINUED

utility plant to the regulatory agency. With this in mind, we noted the following deficiencies in the fixed asset area:

- The continuing property record (CPR) (subsidiary ledger) has not been reconciled to the general ledger for the past two years.
- Since the CPR is updated from a different source than the general ledger, variances occurred in the amount of retirements posted to each account.
- The assets that were capitalized under the work order system did not include all costs to be capitalized under the Public Utilities Commission's guidelines.

Recommendation

Since the utility plant accounts are the basis for the rate-making formula, it is imperative that an accurate detail of all fixed assets be maintained. The most crucial steps in the maintenance of the CPR includes the following:

- Accurate capture of all costs to the capitalized under the PUC guidelines.
- The work order system should be the basis for any additions or retirements to the fixed assets and should be integrated into the accounting system in such a manner that it becomes the source of changes to the fixed assets on both the CPR and the general ledger.
- Periodic reconciliations between the CPR and the general ledger should be performed in order to insure that the utility plant accounts are accurate.

7. ACCOUNTING STAFF

Finding

The Water Supply Board's accounting and financial requirements have grown significantly in recent years. Management's goal of installing new data processing and accounting systems will also add to the need for qualified accounting expertise on the staff.

Recommendation

The Water Supply Board should add qualified accounting staff to help meet current and future operating needs.

PROVIDENCE CIVIC CENTER AUTHORITY

The following conditions are considered to be nonmaterial weaknesses.

1. ACCOUNTING POLICY

Finding

During the course of the audit we noted the lack of formalized accounting policies and procedures in the following areas:

- Capitalization of fixed assets
- Employee performance appraisal
- Record retention
- Credit review function

Recommendation

We recommend that formal accounting policies be adopted for each of the above items. Formalized accounting policies help to enhance the accuracy, reliability and efficiency in the processing of accounting data. All policies should be formally approved by the Authority and should include the following:

- Establishing a dollar value for the capitalization of fixed assets. All purchases below this amount will be expensed. This will result in increased efficiency by not having to maintain burdensome fixed asset records for immaterial items.
- Developing a formalized evaluation process for all employees in order that job performance can be properly monitored and improved.
- Determining required record retention needs based upon cost effectiveness and instituting a formal policy to reflect these requirements.
- Developing documented procedures to review the credit worthiness of prospective clients in order to minimize the potential for receivable write offs.

2. SEGREGATION OF DUTIES

Finding

There is a lack of segregation of duties regarding the processing of checks received in accounting. The same individual is responsible for recording the cash receipts and completing the deposit slip. The probability of errors or irregularities is increased when the recordkeeping and custody functions are not separated.

PROVIDENCE CIVIC CENTER AUTHORITY (CONTINUED)

Recommendation

In order to provide stronger control over cash receipts, we recommend that a listing of all checks received be prepared by another accounting clerk. This list would then be forwarded to the controller, who would compare it to the validated deposit slip on a daily basis.

3. CASH MANAGEMENT

Finding

We noted that large cash balances are sometimes maintained in non-interest bearing checking accounts.

Recommendation

In order to maximize its investment return the Authority should investigate the possibility of consolidating its bank accounts and opening a sweep account in which all excess cash would be invested overnight.

4. NONMONETARY EXCHANGES

The Civic Center entered into nonmonetary transactions during the year. The following is a summary of the items received in exchange for advertising:

- Two leased automobiles
- Radio advertising
- Hotel services
- Equipment

Recommendation

We recommend that detailed procedures be established to ensure that all nonmonetary transactions are properly recorded in the accounting records and reviewed by the Authority.

5. PAYROLL

Finding

We noted that department heads both authorize time cards and distribute paychecks for their respective departments.

PROVIDENCE CIVIC CENTER AUTHORITY (CONTINUED)

Recommendation

We recommend that a periodic payroll handout be performed which would require all paychecks to be picked up in the accounting office. This procedure would provide assurance that all checks distributed are to valid employees.

PROVIDENCE REDEVELOPMENT AGENCY

During the year ended June 30, 1985, the operations of the Providence Redevelopment Agency (PRA) were brought under the management of the City of Providence Department of Planning and Development. The accounts and funds of the PRA are included in the combined financial statements of the City as a special revenue fund. The following are our findings and recommendations concerning the accounting records and operations of the PRA. These conditions are considered to be material weaknesses.

Finding - Accounting Records

Many problems were encountered during our examination of the accounting records of the PRA. In general, the records suffered from lack of management review and scrutiny. Among the specific problems are the following:

- Certain bank accounts were encountered which were not carried on the accounting records. These funds related to closed programs and PRA personnel were not monitoring the status of these accounts.
- Detail records of "good faith deposits" from persons or businesses performing projects on PRA property contain many stale items dating back many years. The recorded balances appeared to represent amounts which in some cases should have been returned to the depositors because the work had been completed.

The PRA's policy with respect to the amount and method of paying interest on such deposits are unclear. The PRA sometimes relies on an outside party to calculate the interest to be paid without recalculation of the amount.

Interest income and interest expense for good faith deposits is not recorded on the accounting records. Accordingly, the accounting records do not present the true financial position of PRA funds and obligations.

- Certain accounting errors were detected in the records. These related to the capitalization of certain disbursements which should have been recognized as expenditures.
- The nature of the accounting records is not conducive to preparation of annual operating financial statements. Revenue and expenditure accounts are maintained on a cumulative basis rather than on a fiscal year basis.
- Journal entries to the accounting records are not approved by a responsible official. There is no policy for regular preparation of comprehensive, useful financial reports to management.
- The activity of the "revolving fund" which is used to allocate expenditures to different projects should be carried on the accounting records. Transfers into and out of the revolving fund should be recorded on a cumulative journal.

PROVIDENCE REDEVELOPMENT AGENCY

Recommendation

The extent of these findings is an indication that the PRA (and the Department of Planning and Development) need additional qualified accounting staff to maintain and operate the accounting records of the Department and all of its funds.

A plan should be adopted to correct the problems noted. Consideration should be given to development of an accounting system which will meet the combined needs of the PRA funds and the other Federal grants administered by the Department of Planning and Development.

CITY OF PROVIDENCE, RHODE ISLAND
Comments Relating to Federal Financial Assistance Programs

Single Audit Report

June 30, 1985

**AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS
RELATED TO MAJOR AND NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

Honorable Mayor and
Members of the City Council
City of Providence, Rhode Island

We have examined the general purpose financial statements of the City of Providence, Rhode Island for the year ended June 30, 1985 and have issued our report thereon dated November 22, 1985. Our report on the general purpose financial statements was qualified due to the following:

- Uncertainties regarding outstanding litigation and claims
- Pension costs are recorded in a manner which is not in conformity with generally accepted accounting principles
- The combined financial statements do not include a general fixed asset group of accounts

Our examination was made in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the City of Providence is responsible for the City's compliance with laws and regulations. In connection with the examination referred to above, we selected and tested transactions and records that included, but were not limited to, transactions and records relating to each major Federal financial assistance program and certain nonmajor Federal financial assistance programs. The purpose of our testing of transactions and records was to obtain reasonable assurance that the City of Providence, had, in all material respects, administered its major Federal financial assistance programs and executed the tested transactions in compliance with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the City's general purpose financial statements. Such laws and regulations include those pertaining to Federal financial reports and claims for advances and reimbursements.

Our testing of transactions and records selected from major Federal financial assistance programs disclosed instances of noncompliance with certain laws and regulations. All instances of noncompliance that we found, and the programs to which they relate, are identified in this report with internal control findings under the captions "Compliance Findings" on pages 30 to 52. Our comments are arranged by function/department of the City.

In our opinion, subject to the effect of the ultimate resolution of those instances of noncompliance referred to in the preceding paragraph, for the year ended June 30, 1985, the City of Providence, Rhode Island, administered each of its major Federal financial assistance programs in compliance, in all material respects, with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures.

Further, the results of our testing of transactions and records referred to in the second paragraph of this report indicate that for the transactions and records tested, the City of Providence, Rhode Island complied with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the City's general purpose financial statements, except as described in the sections labeled "Compliance Findings." These instances of noncompliance were considered by us in evaluating whether the general purpose financial statements are presented fairly in conformity with generally accepted accounting principles. Our testing was more limited than would be necessary to express an opinion on whether the City of Providence administered the nonmajor Federal financial assistance programs in compliance, in all material respects, with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures. With respect to the transactions and records that were not tested by us, nothing came to our attention to indicate that the City of Providence, Rhode Island, had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

Peat, Marwick, Mitchell & Co.

November 22, 1985



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
40 Westminster Street
Providence, Rhode Island 02903

AUDITORS' REPORT ON INTERNAL CONTROLS -
FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Honorable Mayor and
Members of the City Council
City of Providence, Rhode Island

We have examined the general purpose financial statements of the City of Providence, Rhode Island for the year ended June 30, 1985 and have issued our report thereon dated November 22, 1985. Our report on the general purpose financial statements was qualified due to the following:

- Uncertainties regarding outstanding litigation and claims
- Pension costs are recorded in a manner which is not in conformity with generally accepted accounting principles
- The combined financial statements do not include a general fixed asset group of accounts

As part of our examination, we made a study and evaluation of the internal control systems, including applicable internal accounting and administrative controls, used in administering Federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards; the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Government.

On page 2, we have also reported separately on the results of our study and evaluation of internal accounting and administrative controls other than those used in administering Federal financial assistance programs. The results of our study and evaluation of internal accounting and administrative controls used in administering Federal financial assistance programs are presented herein with our compliance findings on pages 30 to 52. For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering Federal financial assistance programs in the following categories:

Accounting Controls

- Payroll
- Accounts payable and expenditures/expenses
- Revenue/receipts

Administrative Controls

- Eligibility
- Davis Bacon Act
- Cash management
- Cost allocation
- Other general requirements

Our study and evaluation included all of the applicable control categories listed above.

The management of the City of Providence, is responsible for establishing and maintaining internal control systems used in administering Federal financial assistance programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used in administering Federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to Federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering Federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

During the year ended June 30, 1985, the City of Providence expended 84.8 percent of its Federal financial assistance under major Federal financial assistance programs. With respect to internal control systems used in administering major Federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering nonmajor Federal financial assistance programs, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Accordingly, our examination would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor Federal financial assistance programs.

Our study and evaluation described in the two preceding paragraphs were more limited than would be necessary to express an opinion on the internal control systems used in administering the major and nonmajor Federal financial assistance programs of the City of Providence. Accordingly, we do not express an opinion on the internal control systems used in administering the major and nonmajor Federal financial assistance programs of the City of Providence. However, our study and evaluation and our examination disclosed certain conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to a Federal financial assistance program may occur and not be detected within a timely period. Such conditions are herein referred to as "material weaknesses" and appear in this report with compliance findings under the captions "Internal Controls Over Federal Financial Assistance Programs". Our comments are arranged by function/department of the City.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in 1) our examination of the 1985 general purpose financial statements and 2) our examination and review of the City's compliance with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures. This report does not affect our reports on the general purpose financial statements and on the City's compliance with laws and regulations dated November 22, 1985.

This report is intended solely for the use of management and applicable Federal regulatory agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City of Providence, Rhode Island, is a matter of public record.

Peat, Marwick, Mitchell Co.

November 22, 1985

THE DEPARTMENT OF PLANNING AND DEVELOPMENT

The following is a summary of our findings from our financial and compliance audit of the grants administered by the Department of Planning and Development (DPD).

The findings are presented in 3 parts:

- A. PRIOR YEAR FINDINGS
- B. COMPLIANCE FINDINGS
- C. INTERNAL CONTROLS OVER FEDERAL FINANCIAL ASSISTANCE PROGRAMS

A. PRIOR YEAR FINDINGS

1. PAYROLL COSTS CHARGED TO PROGRAMS

Condition

Employee payroll costs in the amount of \$38,600 were charged to Community Development Block Grant (CDBG) during fiscal year 1984 when in fact no documentation exists which supports that the employees' duties were related to community development activities.

Status

The costs in the amount of \$38,600 were disallowed by the Federal granting agency.

Grantee's Response

The department does not necessarily agree with the conclusion. However, the disallowed costs will be reimbursed to the CDBG Program by the City of Providence General Fund.

2. IMPROPER COST ALLOCATIONS

Condition

- (a) Payroll cost of non-DPD employees working in the Office of the Mayor were allocated to the CDBG in the amount of approximately \$70,500.

- (b) The costs of two computers used by other City departments were charged to the CDBG.

Status

- (a) The employee payroll costs of \$70,500 were disallowed by HUD.
(b) The cost of the computers were disallowed by HUD.

Grantee's Response

- (a) The department does not necessarily agree with the conclusion. However, the disallowed costs will be reimbursed to the CDBG Program by the City of Providence General Fund.
(b) The two computers have been returned to DPD to be used in administering Federal programs.

3. MAINTENANCE OF EFFORT

Condition

The Department of Planning and Development was reimbursed by the General Fund of the City for the 1983 cost of leasing fire equipment in the amount of \$301,000.

Status

The above cost was disallowed by HUD and was reimbursed by the City with non-Federal funds to the CDBG program.

4. INSUFFICIENT DOCUMENTATION

Condition

Payments made to contractors charged to CDBG financed projects lacked proper supporting documentation and approvals.

Status

- Prior Year Finding 4a: This finding has been closed by the grantor agency.
Prior Year Finding 4b: HUD has disallowed the cost of \$3,900 which the City will reimburse to the CDBG program from non-Federal funds.

Grantee's Response

The \$3,900 disallowed cost will be reimbursed to the CDBG Program by the City of Providence General Fund.

5. INELIGIBLE GRANT RECIPIENT - RELATED PARTY

This finding has been closed by the grantor agency.

6. LOAN OF PROGRAM FUNDS

Condition

A loan in the amount of \$168,000 was granted during fiscal year 1983 which was classified as a bad debt.

Status

It has been determined that the funds were used for CDBG related activities. HUD is considering converting the loan into a deferred note payable to the CDBG program contingent upon the City placing liens on the properties.

Grantee's Response

We are in the process of converting the loan to a grant.

7. INELIGIBLE GRANT RECIPIENTS

Condition

Home Improvement Program Grants were given to two recipients whose annual family income exceeded the income eligibility requirements.

Status

This finding has been closed by the grantor agency.

8. CHANGE ORDERS

Condition

Change orders were used in the Home Improvement Program which increased expenditures subsequent to the original award of the contract for construction work that probably could have been anticipated at the time of the original bid.

Status

This cost in the amount of \$13,000 was disallowed by HUD.

Grantee's Response

The program has been shut down since October 1984 and is being redesigned to satisfy professional management procedures. The program will not be reinstituted until those procedures are in place and are acceptable to HUD. The disallowed costs will be reimbursed to the CDBG Program by the City of Providence General Fund.

9. SUBGRANTEE AUDIT REPORTS

Condition

Certain subgrantee audit reports were not submitted on a timely basis and did not contain the required language specified in the contract between the Subgrantee and the Department of Planning and Development.

Status

This finding has been closed by the Grantor agency. However, HUD will continue to monitor the City's enforcement of annual audit requirements of contracts with subgrantees.

10. INTERNAL CONTROLS OVER PROGRAM EXPENDITURES

Condition

The internal control procedures concerning approvals required for expenditures were noted to be undocumented and often inconsistently applied.

Status

This finding has been closed by the grantor agency.

11. ACCOUNTING SYSTEM

Condition

The present accounting systems of DPD were noted to be clearly inadequate for their primary purpose of providing useful and timely information to management as to the status of Federal grants and community development projects as well as the preparation of financial statements.

Status

This finding has been closed by the grantor agency. However, see current year internal control finding regarding accounting systems.

12. CHANGE ORDERS

Condition

The frequent use of change orders in the Home Improvement Program appeared to be an abuse of the competitive bidding system. In many instances, change orders could have been anticipated in the competitive bidding process.

Status

See current year finding.

13. PRIOR YEAR AUDIT ADJUSTMENTS

Condition

During fiscal year 1983 the audit adjustments were not posted to the accounting records.

Status

Although this finding has not been formally closed by HUD, the problem did not reoccur in fiscal year 1985.

14. HOME IMPROVEMENT LOAN DELINQUENCIES

Condition

A significant portion of the Home Improvement loans were noted to be past due as of June 30, 1984.

Status

The Home Improvement Program was discontinued during fiscal year 1985. However, the delinquency problem on loans issued in prior years continues to exist as of June 30, 1985.

15. CONTRACT DOCUMENTATION

Condition

Vendor contract files maintained in the legal department during fiscal year 1984 were incomplete with regard to bidding documentation.

Status

Although this finding has not been formally closed by HUD, this problem did not reoccur during fiscal year 1985.

16. OFFICE OF ECONOMIC DEVELOPMENT FILE

Condition

Only one key existed to a file containing grants, agreements and other important documents.

Status

Although this finding has not been formally closed by HUD, an additional key was obtained to the files for access during fiscal year 1985.

17. PAYROLL RECORDS

Condition

Improper payroll records resulting in inaccurate payroll information for two employees existed during fiscal year 1984 in DPD.

Status

Although this finding has not formally been closed by HUD, this problem was corrected during fiscal year 1985.

DEPARTMENT OF PLANNING AND DEVELOPMENT

B. COMPLIANCE FINDINGS

1. TRAVEL ALLOWANCES

Finding

Employees of the DPD were paid approximately \$24,720 as allowances for automobile usage and benefits. There is no documentation that exists to support the expenditures which were charged to the CDBG.

Recommendation

Proper documentation should exist for all costs charged to the CDBG (i.e., expense sheets for mileage reimbursements).

Grantee's Response

Our travel allowance practices were questioned by HUD earlier in 1985. As a result of that discussion, we have conducted a study of DPD's practice of reimbursement for travel expenses. As a result of that study we will adopt a policy whereby travel expenses charged to the CDBG Program will be paid only on the basis of actual substantiated costs.

2. IMPROPER COST ALLOCATIONS

Finding

Certain payroll costs of non-DPD City employees working the the Office of the Mayor were allocated to DPD and charged to the Community Development Block Grant (CDBG). No documentation exists which supports activities. Further, there is no approved indirect cost allocation plan. The amount of such costs in question was approximately \$67,000 during fiscal year 1985.

Recommendation

Allocation of indirect costs in the absence of an indirect cost allocation plan is improper. Further, documentation should exist which supports all costs allocated to Federal grants.

Grantee's Response

Documentation is being obtained which will support the eligibility of costs which were charged to the CDBG Program.

3. HOME IMPROVEMENT PROGRAM COSTS

Finding

The Home Improvement Program was substantially curtailed during the fiscal year ended June 30, 1985. Beginning in October 1984, no new applications were accepted by DPD and after April 1985 no new contracts were written. DPD did continue to process Home Improvement and other related program grants and loans during the period for which applications had been accepted prior to October 1984. The volume of such transactions was, however, reduced from the preceding fiscal year although the staffing levels of persons assigned to the Program remained essentially the same.

Grantee's Response

The personnel assigned to the Home Improvement Program were assigned to perform other eligible functions. Among these were a city-wide property condition survey (approximately 60,000 properties) conducted for the purpose of targeting future Home Improvement Programs.

4. SUBGRANTEE AUDIT REPORTS

Finding

Subgrantee audit reports have not been submitted by the following subgrantees for fiscal year 1985.

1. South Providence Revitalization
2. Elmwood Foundation
3. OIC Cultural Services

All subgrantee contracts using DPD funds for administration purposes must have annual audited financial statements and audit reports prepared in conjunction with OMB circular A-102.

Recommendation

DPD should develop a procedure to ensure that subgrantees submit annual audited financial statements and audit reports on a timely basis.

Grantee's Response

We have follow-up procedures in place to ensure that all subgrantees submit required audit reports. Continued efforts will be made to obtain all reports from subgrantees.

5. UMTA SECTION NO. 3

Finding

The UMTA Grant No. RI-03-0007 administered by DPD had a cash balance of approximately \$345,000 at June 30, 1985. The most recent Federal drawdowns via letters of credit prior to June 30, 1985 (for the months of April and May) amounted to \$312,724. Accordingly, it appears that such funds were not disbursed in a timely manner after drawdowns.

Recommendation

Action should be taken to ensure that Federal funds are expended in a timely manner.

Grantee's Response

This was a short-lived problem due solely to a change in the method of handling purchases at the City's Purchasing Department. The condition does not now exist.

Summary of DPD questioned costs:

<u>Grant</u>	<u>Compliance Finding Reference</u>	<u>Amount</u>
CDBG B-84-MC-44-0003	1	\$ 24,720
CDBG B-84-MC-44-0003	3	<u>67,000</u>
		\$ <u>91,720</u>

DEPARTMENT OF PLANNING AND DEVELOPMENT

C. INTERNAL CONTROLS OVER FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Material Weaknesses

1. INTERNAL CONTROL DOCUMENTATION

Finding

The internal control procedures concerning approval required for expenditures are undocumented and often inconsistently applied. For instance, many expenditures were noted which lacked one or more approval signatures of DPD officials on the internal approval forms including the signatures of the Program Director, the EEO/AA Director, the Fiscal Director, Environmental Assessment, and the Field Check.

Recommendation

It is incumbent upon DPD to maintain adequate internal controls to ensure that expenditures are proper and qualified. The present system does not lend itself to this. It is strongly recommended that the following procedures be performed:

- Management should review the current procedures and determine which approvals are required for each type of expenditure.
- The requirements should be documented.
- The policies and procedures should be made clear to all DPD personnel.

Grantee's Response

The recommendations made have been incorporated into a new documentation procedures policy which will be communicated to all affected parties.

2. CHANGE ORDERS

Finding

The use of change orders for contractors involved in Community Development activities can result in a circumvention of the competitive bidding system. Cases were noted in which the procedures relating to the change order could have been anticipated to be part of the original bid specifications. Allowing an increase in the contract price for the change order often results in a total contract price which exceeds the second lowest original bid amount. While the need for change orders is certainly legitimate in some cases due to unforeseen circumstances, use of them should be limited to truly unusual circumstances.

Recommendation

Management should review the system of granting price allowances for change orders. Part of the problem would be alleviated if the original bid specifications were more clearly worded as to the exact nature of the procedures to be performed. This would eliminate uncertainty over whether any additional procedures are, in fact, beyond those originally required in the bid specifications.

Grantee's Response

This problem was addressed by HUD auditors and the program subsequently closed down. This kind of abuse will not be prevalent in future projects.

3. ACCOUNTING SYSTEMS

Finding

DPD personnel are responsible for the management of several different grants and funds. These include CDBG activity, various other Federal grants, the funds administered by the Providence Redevelopment Agency, and the Providence Local Development Corporation (PLDC). Currently, each activity has its own set of accounting records, all of which are inadequate. A brief summary of the inadequacies of the accounting records follows:

CDBG and Other Federal Grants:

- Revenue and expenditure general ledger accounts are not utilized.
- Charts of accounts are inadequate to provide useful information.

Providence Redevelopment Agency:

- Detail revenue and expenditure accounts are not utilized.
- Other comments are included elsewhere in this report under the heading Providence Redevelopment Agency.

PLDC:

- The PLDC does have a formal set of accounting records and no general ledger is utilized.
- Much confusion was apparent on behalf of DPD personnel as to how to properly record and account for PLDC activity.

General Comments:

- The accounting and financial control functions appear to be too decentralized and disorganized.

- Many of the accounting records are not reviewed by management for propriety.
- More qualified accounting personnel are needed.
- Useful and timely financial reports to management cannot be generated from the current accounting systems.
- A unified approach to cost allocation should be adopted.

Recommendation

A plan should be adopted to correct the accounting system deficiencies described above.

Grantee's Response

A new accounting system will be installed encompassing all records. A new system is in the process of being established for CDBG. A new computer system will have the capacity to handle easily all record requirements and a Request for Proposal will go out shortly to convert our accounting and bookkeeping to EDP.

4. INACCURATE DRAWDOWN PREPARATION

Finding

The internal documentation which is utilized to support the drawdowns of grant funds is poorly prepared. The worksheets are difficult to follow and many instances were noted in which invoices were charged to the wrong grant on the worksheets.

Recommendation

Management should develop a formalized system of requesting drawdowns with accurate listings of expenditures charged to proper grant programs.

Grantee's Response

The confusion with regard to proper classification does not exist any longer. Drawdowns are charged to the proper accounts.

5. CASH BALANCES

Finding

The present accounting system records cash transactions in various checking accounts by classifying cash disbursements as either "General Administrative" or "Invoice Expenditures." This does not provide an adequate trail to identify disbursements by individual grant.

Recommendation

In order to facilitate better financial reporting, separate cash accounts for each grant program should be maintained (one cash balance for each CDBG year). As an alternative, the chart of accounts should be enhanced to classify transactions with greater detail.

Grantee's Response

The necessity for the enhancement of the chart of accounts is addressed in the Request for Proposal for the new accounting system for the Department of Planning and Development. This request is expected to be out for bids in the very near future.

6. COMPETITIVE BIDDING PROCESS

Finding

In certain cases, original bid amounts by contractors are reduced by the contractor to the amount of funds available for a project within the current year. Accordingly, the contractor deletes specific items of work to be performed on the contract. Subsequently, multiple change order are processed for the items previously deleted as funds become available in future years. In essence, a substantial portion of additional work performed on contracts is bypassing the competitive bidding process.

Recommendation

Competitive bidding requirements should be strictly enforced on qualifying CDBG programs.

Grantee's Response

The original contract was subjected to the competitive bidding process. The contract was let in accordance with customary procedures. The lowest qualified bidder for the entire project was selected and as funds became available, the complete project as bid was accomplished. Because funds were not available for the full contract, a portion of the contract services were deleted so that the work performed equalled the available funds. Subsequent services were performed as money became available but always in conformance with the original low total bid. This was accomplished through change orders.

This procedure, used very infrequently, will be modified.

7. PROGRAM DEFICITS

Finding

A significant amount of expenditures were charged to the Eighth Year CDBG despite the fact that all available Eighth Year funds had been spent.

Recommendation

Program expenditures should be limited to the amount of program funds available.

Grantee's Response

Controls have been instituted which will prevent this condition from reoccurring in the future.

PARKS DEPARTMENT

The Parks Department administers two grants from the National Endowments for the Arts; the City Arts and the Folk Arts programs. It also administers an Institute of Museum Services General Operating Support Grant.

A. PRIOR YEAR FINDINGS

1. INSTITUTE OF MUSEUM SERVICES GENERAL OPERATING SUPPORT GRANT

Condition

Undocumented travel allowances were paid to Roger Williams Park and Zoo employees for automobile usage and benefits.

Status

No progress has been made. See current year Finding No. 1.

2. GENERAL LEDGERS

Condition

A formalized general ledger for the Parks department programs was not maintained. Also, a lack of segregation of duties between operations and accounting personnel was noted.

Status

No progress has been made. See current year comment No. 1.

B. COMPLIANCE FINDINGS

1. INSTITUTE OF MUSEUM SERVICES GENERAL OPERATING SUPPORT GRANT (G008303215)

a. Finding - Questioned Costs

Employees of the Roger Williams Park and Zoo were paid approximately \$400 as allowances for automobile usage and benefits. There is no documentation that exists to support these expenditures and accordingly this is considered to be a questioned cost.

Recommendation

Proper documentation should exist for all costs charged to the grant (i.e., expense sheets for mileage reimbursement).

Grantee's Response

Expense sheets for travel allowance were drawn up a year ago and will be used for grants that include provision for mileage or travel.

b. Finding - Quarterly Reports

The quarterly recipient reports of expenditure (OMB No. 1880-172) which are submitted to account for grant activity do not properly reflect the true cash balances and all activity within the proper period.

Recommendation

The quarterly reports should be reconciled to the accounting records (general ledger) prior to submission. The preparers should make sure that all activity concerning grant funds has been recorded.

Grantee's Response

Quarterly reports will be reconciled to the accounting records before they are submitted and all transactions will be recorded. Quarterly reports must be reviewed by the Chief of Fiscal Affairs before submission to the proper authority.

c. Finding - Unexpended Cash

Cash in the amount of approximately \$82 has not been returned to the Institute of Museum services upon completion of the general operating grant.

Recommendation

The Parks Department should remit unexpended cash to the grantor agency.

Grantee's Response

Unexpended cash in the amount of \$82 is left from a previous grant two years ago, administered by a person no longer on staff. The newly employed grant administration for the Zoo has twice discussed the return of the \$82 with Federal staff persons in Washington who have not yet decided whether we should or should not return this money. We will, nevertheless, return the funds.

2. NATIONAL ENDOWMENT FOR THE ARTS GRANTS

Finding - Grant Reporting

The financial status report as of June 30, 1985 was not filed for the City Arts and Folk Arts program (Grant Nos. 22-5350-435 and 32-5530-00130, respectively). The 1985 performance report was also not filed for the City Arts program.

Recommendation

Financial status reports and performance reports should be submitted on a timely basis.

Grantee's Response

It is our understanding that the Folkarts Final Report had been submitted to the National Endowment for the Arts but that for some unknown reason we did not have a copy of that report in our files. This copy has since been obtained and filed.

The City Arts Financial Report has been submitted to the National Endowment of the Arts. However, the City Arts Narrative Report has not been submitted primarily because the hiring of a consultant to complete this report had just recently been approved. This report is expected to be completed soon.

C. INTERNAL CONTROLS OVER FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Material Weaknesses

1. GENERAL LEDGERS

Finding

A formal general ledger system is not maintained for the National Endowment for the Arts, the City Arts and Folk Arts programs. The accounting records consist of a loosely maintained cash receipts and disbursements log.

Additionally, there is a lack of segregation of duties between operations and accounting personnel. The same individual who submits and approves expenditures also maintains the accounting records and submits Federal financial reports.

Recommendation

We recommend that formal accounting records be developed and maintained. This should include a general ledger that reflects assets, liabilities, fund balance, revenues and expenditures. This will help to ensure that all accounting transactions are properly recorded and reflected in the financial statements. Management should also determine whether there are persons adequately trained in accounting to maintain these records.

Finally, the City should consider centralizing the accounting and disbursements records currently maintained by the Parks Department into the accounting records of the Department of Planning and Development or the City Controllers Department.

Grantee's Response

There is definitely the need to establish a general ledger system for the various grants. This is being corrected and instead of two or three grants administrators employing a ledger, all entries will be kept in one ledger in the Office of the Superintendent. Copies of all transactions are to be forwarded to the Chief of Fiscal Affairs.

It is believed that there is also accountability and coordination with the City Controllers Department in that all income and disbursements are processed through the Office of the Controller.

REVENUE SHARING

A. COMPLIANCE FINDING

The City is defendant in nine claims which are being processed by the Equal Employment Opportunity Commission's Boston office. These cases involve alleged discrimination on the basis of age (three), sex (three) and race (three).

B. INTERNAL CONTROLS OVER FEDERAL FINANCIAL ASSISTANCE PROGRAM

Revenue sharing expenditures in Providence are processed through the same system of internal controls utilized for the City's General Fund. Our comments regarding this system of internal control appear on pages 4 to 14. The following current year comments appearing therein are specifically applicable to Revenue Sharing Funds:

<u>Comment No.</u>	<u>Subject</u>
1.a	Bank Reconciliations
2	Accounting Systems
4	Data Processing Operations
6	Internal Controls

Management's responses to these comments are as follows:

- 1.a. The City intends to implement new data processing systems which are expected to resolve this area.
2. The City is currently in the process of software selection and is considering this comment.
- 4.a. The facility manager utilized Dynam-T as an internal tape management system. The computer room is locked at all times. The City disagrees with this comment.
 - b. The facility manager intends to update the disaster recovery plan.
 - c. The City is in the process of hardware selection which should alleviate this concern.
 - d. This has been implemented.
 - e. This has been implemented.
 - f. This has been implemented.
 - g. The City is currently in the process of software selection and is considering this comment.
6. The City intends to address this area.

PROVIDENCE SCHOOL DEPARTMENT

The Providence School Department administers various financial assistance grants from the U.S. Department of Education and the State of Rhode Island, as well as the Unrestricted School Fund which is used to account for all general education operations of the School Department.

A. STATUS OF PRIOR YEAR FINDINGS

Capital Projects

A computerized accounting system has been developed which keeps track of expenditures by project.

Maintenance of Restricted Program Records

No progress has been made in this area. See current year internal control finding No. 2.

Physical Inventory

No progress has been made in this area. See current year internal control finding No. 4.

Relocation of Copy Room Expenses

No progress has been made in this area. See current year internal control finding No. 3.

Bank Account Reconciliation

There are still problems in this area. See current year internal control finding No. 1.

B. INTERNAL CONTROL FINDINGS

Material Weaknesses:

1. BANK RECONCILIATIONS

Finding

Reconciliations of the following restricted bank accounts were either improperly performed or not performed on a timely basis.

- | | |
|--------------|--------------|
| • 15-8109720 | • 15-8104481 |
| • 15-8002446 | • 15-8106700 |
| • 15-8100692 | • 15-8109746 |
| • 15-8106684 | • 15-8011959 |
| • 15-8109712 | • 15-8106247 |
| • 15-801567 | |

At June 30, 1985 outstanding check lists for many of these accounts had to be created since they were not maintained throughout the year. In order to ensure early detection of clerical and other types of errors and omissions, prompt reconciliations of cash accounts is critical.

Recommendation

We again recommend that qualified personnel independent of the cash receipts and cash disbursement functions should perform the monthly reconciliations for restricted cash accounts. These reconciliations should be reviewed by an appropriate official to ensure the following:

- The reconciliations are performed on a timely basis.
- The reconciled balance is agreed to the general ledger cash account balance and the balance in the School Department's cash ledger books.
- The reconciliations include all deposits in transit and outstanding checks as reconciling items.
- All miscellaneous variances are promptly investigated and entries made to correct any errors or omissions.

It should be noted that the School Department does not have control over the reconciliation process, as the reconciliation procedures for all City, School, and Federal program cash accounts are performed in the City Controller's and Treasurer's Offices.

Management's Response

As noted in the finding, the School Department does not have control over the reconciliation process. This is a function of the City Treasurer's Office which has the responsibility for all City, School and Federal Programs cash accounts and the respective reconciliations.

The City intends to implement new data processing systems which are expected to resolve this area.

Nonmaterial Weaknesses:

2. MAINTENANCE OF RESTRICTED PROGRAM RECORDS

Finding

Detailed general ledgers are not maintained to record the activity of the restricted programs. Control over funds is recorded on a cash basis through the use of various cash ledger books maintained by the Federal Programs Department of the Controller's Office. In many instances the cash ledgers are maintained on the funding agencies' grant year/period which differs from the School Department's June 30 fiscal year. This causes great difficulty in summarizing the activity of the restricted programs on an accrual basis.

Recommendation

In order to facilitate School Department reporting for the various restricted programs, we recommend that an appropriate general ledger system be developed which summarizes all balance sheet and revenue and expenditure items on an accrual basis for each major title or grant program. This will result in increased efficiency in completing the various regulatory reports and in compiling information for the annual financial statements.

Management's Response

The City intends to implement new data processing systems which are expected to resolve this area.

3. ALLOCATION OF COPY ROOM EXPENSES

Finding

Records are not being maintained on departmental usage of the copy room.

Recommendation

We recommend that the School Department develop procedures to monitor copy room usage. This will allow the School Department to properly allocate the expenses among the various departments and programs. In addition, the School Department will be able to receive reimbursement from the Federal programs through the use of the indirect cost allocation for the Federal programs' portion of the expenses.

Management's Response

As stated previously, relative to findings for fiscal year ended June 30, 1984, manpower cuts had forced discontinuance of a system for allocation of copy room expense.

As also stated, an attempt would be made to install a new system. As of May, 1986 new equipment has been ordered that will be utilized in conjunction with our copying equipment to quickly and easily record departmental usage. Allocation of copy room costs should commence with the 1986-87 fiscal year, providing the new equipment arrives in a timely manner.

4. PHYSICAL INVENTORY

Finding

The Providence School Department has an inventory recording system which was created to account for the supplies and textbooks inventories. Currently, only the School Department supplies are being accounted for by this system. Estimates of the value of inventory on hand at June 30 are made from various records. For financial statement

purposes the School Department does not record inventory. However, for State reporting purposes it is necessary to calculate ending inventory in order to calculate the dollar value of textbooks used.

Recommendation

To more accurately determine the value of textbook inventory on hand at June 30 for Form 31 reporting purposes, we strongly recommend that a yearly physical count be taken for both textbooks at the schools and at the School Department. Items should be costed by an acceptable method and the value should be compared to the existing perpetual inventory records to determine the accuracy of the inventory accounting system. The perpetual records should then be adjusted to reflect the actual supplies and books on hand each June 30. The relative size of adjustment resulting from the physical count will also provide an indication as to the adequacy of existing controls or the need to establish better internal controls over the perpetual inventory system for supplies and textbooks.

Management's Response

The process to develop a textbook inventory system was to have commenced in fiscal year 1984-85. Because of personnel changes in the Business Division, the process was delayed until the new Business Manager was officially hired by the School Board. The Business Manager has assumed leadership in the development of a process to endeavor to accomplish the needs of an appropriate inventory control.

CITY OF PROVIDENCE, RHODE ISLAND

Supplementary Schedule
of Federal Financial Assistance

June 30, 1985



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
40 Westminster Street
Providence, Rhode Island 02903

AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Honorable Mayor and
Members of the City Council
City of Providence, Rhode Island

We have examined the general purpose financial statements of the City of Providence, Rhode Island, for the year ended June 30, 1985, and have issued our report thereon dated November 22, 1985. Our report on the general purpose financial statements was qualified due to the following:

- Uncertainties regarding outstanding litigation and claims
- Pension costs are recorded in a manner which is not in conformity with generally accepted accounting principles
- The combined financial statements do not include a general fixed asset group of accounts

Our examination of such general purpose financial statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office and, accordingly, included such test of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination was made for the purpose of forming an opinion on the general purpose financial statements of the City of Providence, Rhode Island, taken as a whole. The supplementary information included in the accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such supplementary information has been subjected to the auditing procedures applied in the examination 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.

Peat, Marwick, Mitchell & Co.

November 22, 1985

CITY OF PROVIDENCE, RHODE ISLAND
Schedule of Federal Financial Assistance
For the year ended June 30, 1985

<u>Agency/Program Grant Title</u>	<u>Grant Number</u>	<u>Federal assistance program</u>	<u>Financial statements reference</u>	<u>Questioned costs</u>	<u>Audit findings references</u>
Major Federal financial assistance programs:					
U.S. Department of Housing and Urban Development (HUD):					
Community Development Block Grant (CDBG)	B-83-MC-44-0003	\$ 898,589	(a)	-	(1)
CDBG	B-84-MC-44-0003	4,696,132	(a)	\$ 91,720	(1)
Urban Development Action Grant (UDAG)	B-79-AA-44-0008	3,683,110	(b)	-	(1)
U.S. Department of Interior - National Park Service Urban Park and Recreation Recovery Program	44CTY0190-83-06	737,444	(a)	-	(1)
U.S. Department of Transportation Urban Mass Transportation Capital Improvement Grant	RI-03-0007	1,864,647	(d)	-	(1)
U.S. Department of Education:					
Chapter I (passthrough grant from State of Rhode Island)	1420-51600	3,301,651	(e)	-	(2)
Title VII - passthrough	Various	868,461	(e)	-	(2)
- from Federal government	G008202858 and G008303655	451,771	(e)	-	(2)
U.S. Department of Treasury Revenue Sharing		4,841,295	(f)	-	(3)
Nonmajor Federal financial assistance programs:					
HUD:					
CDBG	B-79-MC-44-0003	500	(a)	-	(1)
CDBG	B-80-MC-44-0003	72,349	(a)	-	(1)
CDBG	B-81-MC-44-0003	102,847	(a)	-	(1)
CDBG	B-82-MC-44-0003	190,895	(a)	-	(1)
UDAG	B-81-AA-44-0061	33,802	(a)	-	(1)
UDAG	B-83-AA-44-0013	345,000	(b)	-	(1)
Jobs Bill	B-83-MJ-44-0003	614,675	(a)	-	(1)
U.S. Department of Commerce Economic Development Administration Grant	01-25-01477-60	41,281	(c)	-	(1)
U.S. Department of Transportation Urban Mass Transportation Capital and Operating Assistance Grant	RI-06-0010	235,500	(d)	-	(1)
National Endowment for the Arts:					
Folk Arts	32-5530-00130	2,215	(c)	-	(4)
Folk Arts	55-5533-0049	-	-	-	(4)
City Arts	22-5350-435	4,409	(c)	-	(4)
U.S. Department of Education:					
Passthrough grants from Rhode Island:					
Chapter II	1420-51000-501	502,000	(e)	-	(2)
Title VI	1430	555,935	(e)	-	(2)
Area Vocational Aid	-	124,230	(e)	-	(2)
Vocational Education	5-1440-552/555	115,268	(e)	-	(2)
CETA	SYETP 84-612	2,649	(e)	-	(2)
Providence Plan Section IV	1415-10500-501	631,141	(e)	-	(2)
Adult Education	-	127,977	(e)	-	(2)
Miscellaneous	-	105,042	(e)	-	(2)
Grants from Federal government:					
Institute of Museum Services	G008303215	16,971	(c)	400	(4)

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Federal Financial Assistance, Continued

The following is a cross reference of the grant expenditures presented to the applicable June 30, 1985 City of Providence financial statements:

- (a) These expenditures appear on the Combining Statement of Revenues and Expenditures for Special Revenue Funds (Schedule 4 on page 46) of the City of Providence Annual Financial Report and on the Combining Statement of Revenues and Expenditures (page 3) of the Department of Planning and Development financial statements.
- (b) These UDAG grant expenditures are not considered to be expenditures for financial accounting purposes. Rather, such amounts are considered to be loans to third parties and such loans appear on Schedule 3 (page 45) of the City of Providence Annual Financial Report.
- (c) These expenditures are included in the Miscellaneous Grant expenditures on Schedule 4 to the City of Providence Annual Financial Report.
- (d) These expenditures appear on the Combining Statement of Revenues and Expenditures for Capital Projects Funds (Schedule 7 on page 49) of the City of Providence Annual Financial Report.
- (e) These expenditures are included in the Other Educational Funds expenditures on Schedule 4 of the City of Providence Annual Financial Report.
- (f) These expenditures appear on Schedule 4 of the City of Providence Annual Financial Report.

The following is a cross reference of the City's Federal financial assistance programs to the applicable audit findings in this report:

- (1) These grants/programs are administered by the Department of Planning and Development which is discussed on pages 30 to 43 of this report. Questioned costs are summarized on page 38.
- (2) Education-related grants/programs are administered by the School Department which is discussed on pages 49 to 52 of this report.
- (3) Federal Revenue Sharing findings appear on page 48 of this report.
- (4) These grants/programs are administered by the Parks Department which is discussed on pages 44 to 47 of this report.



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
40 Westminster Street
Providence, Rhode Island 02903

September 9, 1986

Ms. Rose Mendonca
City of Providence
City Hall
Providence, RI 02903

Dear Ms. Mendonca:

Enclosed are 30 copies of the City of Providence Management Letter
and Single Audit Report.

Very truly yours,

A handwritten signature in cursive script that reads "David V. Devault".

David V. Devault
Senior Manager

DVD:RRL

Enclosure

FILED

SEP 10 9 36 AM '86

DEPT. OF JUSTICE
PROVIDENCE, R.I.

THE COMMITTEE ON

FINANCE
Recommends

Be Referred

John McLaughlin
Clerk

FILED
SEP 10 9 38 AM '86
DEPT. OF CLERK
PROVIDENCE, R.I.