



CITY OF PROVIDENCE, RHODE ISLAND

Management Letter
and
Audit Report Under Attachment P
to OMB Circular A-102

June 30, 1984

IN CITY COUNCIL

READ OCT 3 1985

**WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED.**

Roman Mandavero **CLERK**



CITY OF PROVIDENCE, RHODE ISLAND

Management Letter
and
Audit Report Under Attachment P
to OMB Circular A-102

June 30, 1984

CITY OF PROVIDENCE, RHODE ISLAND

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CITY OF PROVIDENCE, RHODE ISLAND

Management Letter

June 30, 1984



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 combined financial statements of the City of Providence for the year ended June 30, 1984, and have issued our report thereon dated November 28, 1984. As a part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. We did not review the system of internal control of The Providence Civic Center Authority whose financial statements were examined by other auditors. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the City's combined financial statements. 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. We have not reviewed the system of internal control subsequent to November 28, 1984.

The Mayor, City Council and management of the City of Providence are responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the City are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the City 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.

Our study and evaluation disclosed certain conditions in the system of internal accounting control of the City of Providence in effect at June 30, 1984, which, in our opinion, result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the combined financial statements may occur and not be detected within a timely period. Such conditions are referred to 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.

Our comments concerning material and nonmaterial weaknesses which appear on pages 4 to 17 are arranged by function and/or department. Not included therein are comments concerning our findings regarding compliance and internal controls of the various Federal grants which are administered by the City. Such comments regarding Federal grants are presented beginning on page 19.

Finally, a summary of the City's Federal grants and our auditors' report thereon is included beginning on page 40.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our examination of the 1984 combined financial statements and this report does not affect our report on these combined financial statements dated November 28, 1984.

This report is intended solely for the use of the City of Providence, Rhode Island and should not be used for any other purpose.

Peat, Marwick, Mitchell Co.

November 28, 1984

CITY OPERATIONS

A. STATUS OF PRIOR YEAR COMMENTS

Bank Account Reconciliations

Some progress has been made in the quality and timing of the reconciliations of the City's bank accounts, however, much work remains to be done. See current year comment no. 3.

EDP Operations

- Disaster plan - No progress has been made.
- Efficiency - Some progress has been made, however, much remains to be accomplished.
- System security - This area still needs improvement.

See current year comment no. 4.

Control over Checks

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

Teller Controls

This recommendation was implemented.

Leases and Contracts

For the first time, in 1984, the City is assembling a record of lease and contract commitments.

Accounting Policies and Records

- Accounting Procedures Manual - Some progress has been made, however, much remains to be done.
- Retirement System Records - This recommendation is being implemented.
- Water Supply Board Interfund Account - No progress has been made. See current year comment in the Water Supply Board management letter section.
- Revolving Funds - No progress has been made.
- Accounting records - No progress has been made.

See our related current year comments on each of these matters.

CITY OPERATIONS, CONTINUED

B. CURRENT YEAR COMMENTS

The following matters are considered to be material weaknesses.

1. CONTROL CONSCIOUSNESS

Finding:

Our observations of various employees in different departments indicated that there is a lack of understanding of the importance of internal controls. This was evidenced by the following:

- Signed payroll checks left on open counters.
- Lack of controls over the storage of blank checks.
- Lack of adequate methods to restrict access to City departments after working hours.
- Important accounting records not being maintained in locked, fire-proof cabinets.

Recommendation

We recommend that a comprehensive review of the control environment be performed. This review should result in written procedures which document various controls which should be followed. Additional training on the importance of internal controls should be developed for all employees. Further, an evaluation should be made of the availability of storage space and the records retention policy.

2. CAPITAL PROJECTS

Finding

The records which account for the amount of funds available for individual projects and the amount of expenditures by project have not been adequately maintained. As a consequence, there is disagreement between the School Department and the City's records over the amount of funds available. This problem manifested itself when the School Department committed to expenditures involving fund which the City claimed were not available. As a result, these expenditures (amounting to approximately \$130,000 by June 30, 1984) were charged to the Unrestricted School Fund, thus reducing the Unrestricted School Fund surplus returned to the General Fund.

Recommendation

The amount of funds which are available for specific purposes (school modernization, public improvements, etc.) should be firmly determined. This should be communicated to all responsible departmental officials before any further commitments are made to expend funds. The records should be adjusted to reflect the actual funds available. In the future, the status of funds availability should be regularly reported.

CITY OPERATIONS, CONTINUED

We understand that the City has developed a computerized general ledger system for the Capital Projects Fund which details the original funds available, expenditures incurred, and funds currently available. This should be further enhanced so that monthly financial reports are distributed to the various departments and projects. To ensure that everyone is aware of the status of the funds, the City should also consider making such reports a matter of public record and disclose individual project information in its financial statements.

3. BANK ACCOUNTS

Finding

The City maintains many checking and savings deposit accounts with various local banks. Accuracy of records in this area is crucial to making cash management decisions. As we have mentioned in our management letters for several years, the City needs to improve the quality and timing of its bank account reconciliations. The following problems need to be addressed by management:

- Lack of any reconciliation of some City accounts.
- Lack of timely reconciliation of certain accounts.
- Unresolved variances between the general ledger balance and the bank balance.
- Lack of responsibility for control of funds.

The problems noted involve various City departments including the Controller's office, the Treasurer's office, Data Processing and others.

Ineffective or omitted bank reconciliations increase the possibility that errors or misuse of funds will be undetected. The following is a list of bank accounts for which reconciliations are either not being performed or are not performed on a timely basis for various reasons:

- | | |
|--|--------------------------------------|
| ● General Fund disbursement account | ● Water Pollution abatement |
| ● Payroll account | ● Private Industry Code |
| ● Planning and Research Crime Analysis | ● City of Providence Redevelopment |
| ● Model Cities Comstock Renewal | ● City of Providence URPA |
| ● Advisory Committee apprenticeship | ● Rent Escrow |
| | ● School Department Restricted Funds |

Recommendation

The City should inventory all of its cash accounts and assign personnel the responsibility for reconciling that account. Each bank account should be reconciled on a timely basis. The person performing the bank reconciliation should be held accountable for the process. All bank reconciliations should be reviewed by management.

CITY OPERATIONS, CONTINUED

As an additional improvement, the City should consider bringing all of the reconciliation procedures currently performed in the Treasurer's Office under the responsibility of the Controller's Office. This would help to centralize the overall reconciliation function while eliminating much of the confusion and lack of communication which currently hinders the reconciliation function.

4. EDP OPERATIONS

a. Management of the EDP Department

The City's Data Processing Department is currently operated by an outside vendor under contract to the City. Currently, the City and the outside vendor are attempting to increase the effectiveness and efficiency of this department, however, two items we believe should be addressed are:

1. A need for a comprehensive long range plan for updating old and inefficient programs and systems.
2. Implementation of a detailed systems development manual describing all procedures, controls and policies with regard to application software maintenance.

b. Disaster Plan

At the current time a documented "disaster plan" is in place for the Data Processing Center. This is important because the City has come to rely heavily on the computer system for assistance and support in day to day operations. Consequently, a major failure or disaster (fire, vandalism, etc.) in the computer system could have adverse effects on the City's operations.

The disaster plan currently in place, however, does not address the following items in detail, which we believe are important to the effectiveness of the plan.

1. Identification of specific processing requirements for critical systems (i.e., payroll, property taxes, etc.).
2. Establishment of detailed processing priorities.
3. Specifications of detailed routines to implement the plan.
4. Provisions for reviewing, updating and testing the plan periodically.

CITY OPERATIONS, CONTINUED

c. Computer Department Physical Surroundings

Findings

A tour of the computer department revealed the following findings concerning the physical surroundings of the data processing department.

- Lack of adequate overall space.
- Little fire control or detection equipment.
- Lack of adequate storage space.

Recommendation

The City should consider relocating the computer department to larger quarters.

5. GENERAL LEDGER

Finding

The financial activity of the Providence Water Supply Board is still recorded on the general ledger of the City's General Fund despite the fact that the Water Supply Board, operated as a separate fund, maintains its own general ledger.

Recommendation

We recommend that all of the revenues and expenditures of the Providence Water Supply Board be removed from the City's accounts. The Providence Water Supply Board is a separate entity from the City and should not be included in the operations of the General Fund. It is our understanding that the City has made plans to implement this recommendation and is currently in the process of doing so. Even when implemented, however, the interfund account between the General Fund will still need to be reconciled (this is not now being done). See our related comment in the Water Supply Board section of this letter.

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

6. CASH MANAGEMENT

Finding

A transaction was noted whereby approximately \$120,000 of Trust fund cash was invested in a one-year certificate of deposit. Two months later the certificate was canceled by the City Treasurer, causing a \$2,200 penalty, and the funds were then invested in another certificate at a lower interest rate. The net loss to the Trust fund was approximately \$2,700.

CITY OPERATIONS, CONTINUED

7. PURCHASING PROCEDURES

a. Finding

"Direct payments" represent payments for goods and/or services that are not subjected to the complete purchasing system controls. The major difference is that purchase orders are not prepared for direct payments, thus bypassing the City's established procedures for bidding. We recognize that direct payments are necessary under certain conditions. Our review, however, indicated that there were items treated as direct payments which could have been processed through the normal purchasing stream.

Recommendation

We recommend that appropriate guidelines be established for direct payments. Departments will then have a clear understanding as to the types of payments which may be made under the direct payment process.

b. Finding

Purchasing controls were overridden by treating some items as emergencies that, in fact, did not appear to be actual "emergencies."

Recommendation

We recommend that a clear definition of emergencies be developed to ensure that all items are properly handled. In addition, it is essential that the internal controls that are in place be strictly adhered to and monitored by management.

8. REVOLVING FUNDS

Finding

Many of the City's Revolving Funds were created in prior years for purposes which are no longer necessary or apparent. There are several Revolving Funds which account for routine government operations, thus circumventing budgetary accountability. Maintenance of these funds also results in unnecessary bookkeeping costs and effort.

Recommendation

We recommend that all revolving funds be closed out except for those which are truly necessary.

CITY OPERATIONS, CONTINUED

9. 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.

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.

10. FIDUCIARY FUNDS

a. Finding

The current system of recording activity in certain Trust Funds is extremely cumbersome and inefficient. It does not always distinguish receipts as revenue or nonrevenue items, or provide adequate information concerning revenues and expenditures. The problem is directly related to the fact transactions of these funds are not processed by the Controller's office (which is responsible for preparing the financial statements) but rather are processed through a separate system of internal control.

Recommendation

We recommend that the accounting system for recording the transactions of these Trust Funds be modified in a manner which will permit the preparation and maintenance of reliable financial records.

b. Finding

The City does not have a clear understanding in all cases as to the nature and purpose of various Fiduciary Funds.

Recommendation

We recommend that the City undertake a review of all Trust agreements. A written document highlighting the key points should be generated that would explain the nature and purpose of each of the individual funds.

CITY OPERATIONS, CONTINUED

11. FIXED ASSETS

Finding

As we have previously mentioned, the City does not have comprehensive fixed asset records. 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 inventoried periodically to ensure that they are properly controlled.
- Responsibility for custody and effective use of fixed assets can be clearly established.
- Information regarding sources of supply, prices, and useful lives will be readily available. If information regarding maintenance costs is also included in the subsidiary ledgers, ratios of cumulative maintenance costs to original costs can be developed.
- Records will be readily available to substantiate the amount of grants used to finance expenditures for fixed assets. Furthermore, the determination of costs for building or equipment use is facilitated. The latter is important to obtain reimbursement for the use of buildings and equipment in Federal and state aid programs.
- Information is readily available both to determine insurance needs and to substantiate losses recoverable from insurance.
- Information is available for the preparation of a Statement of General Fixed Assets.

Recommendation

The City should undertake the establishment of comprehensive fixed asset records. Although this can be a difficult and time consuming task, the benefits in terms of accountability and control warrant the effort. Once initial records are established, the City should concurrently implement the kinds of 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 all fixed asset additions, sales, abandonments, and transfers.
- Periodic reconciliation of detail ledgers to the general ledger.

CITY OPERATIONS, CONTINUED

- Periodic inventory of fixed assets by location.
- Verification that any asset traded in for a new acquisition is properly removed from the records.

We would be pleased to provide any assistance that you may require regarding these matters.

SCHOOL DEPARTMENT

1. CAPITAL PROJECTS

See comment number 2. in the City Operation's section of this management letter.

The following are nonmaterial weaknesses for which corrective action may be practicable in the circumstances.

2. MAINTENANCE OF RESTRICTED PROGRAM RECORDS

Finding

Restricted programs accounting records in the City Controller's office are maintained on a cash basis for the funding agencies' grant year/period which in many cases differs from the School Department's June 30 fiscal year. In addition, records are maintained on an individual program basis without summarization by title or grant.

Recommendation

In order to facilitate School Department reporting for the various restricted programs on a consistent basis with the unrestricted school fund, we recommend that records in the City Controller's office be maintained summarizing revenues and expenditures for each major title or grant for a reporting period consistent with that of the School Department (June 30).

3. PHYSICAL INVENTORY

Finding

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 such as those relating to the beginning balance, purchases, and school requisitions.

Recommendation

To more accurately determine the value of textbook inventory on hand at June 30 for Form 31 reporting purposes, we recommend that a yearly physical count be taken. 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 indicator as to the adequacy of existing controls or the need to establish better internal controls over inventories of supplies and textbooks.

SCHOOL DEPARTMENT, CONTINUED

4. ALLOCATION OF COPY ROOM EXPENSES

Finding

The School Department Central Administration Copy Room Fund, a proprietary fund, makes charges only to the Indirect Cost Fund and the Unrestricted School Fund. This proprietary fund services general administration and Federal programs, functioning as a Central Administration Copy Room.

Recommendation

Since many Federal programs which are funded for specifically designated purposes may reject inadequately supported charges, we recommend that the School Department develop a system to effectively record and allocate the Central Administration Copy Room charges among all users. This system can be on-going, or it could be monitored on a regular basis in weekly or monthly intervals.

5. BANK ACCOUNT RECONCILIATIONS

Finding

Many of the problems described in comment number 3. concerning bank accounts in the City operations section of this management letter also affect School Department Restricted Fund bank accounts.

Recommendation

See City Operations comment number 3.

PROVIDENCE WATER SUPPLY BOARD

1. GENERAL COMMENT

The findings noted in this letter are serious material weaknesses and merit prompt attention by the Board and City officials. We strongly urge the Board to address the following problems as part of an overall approach to improving the quality of the internal controls and accounting records. A plan should be adopted to achieve this goal and such plan should be monitored by the Board.

2. FIXED ASSET AND INVENTORY LEDGERS

Finding

Entries made to the detail subsidiary ledgers of fixed assets and of inventory do not come from the same source as entries to the general ledger. This results in many unresolved differences between general ledger and the detail, thus rendering the subsidiary ledgers useless as sources of reliable financial information to management.

Recommendation

Procedures currently in place should be modified to ensure common input sources to the general ledger and subsidiary ledgers. Prompt and regular reconciliations should be performed as part of the normal bookkeeping routine. All variances between the general ledger and detail subsidiaries should be investigated and resolved.

3. ACCOUNTS RECEIVABLE LEDGER

Finding

The subsidiary ledger of accounts receivable was not in agreement with the general ledger. Reconciliation between the general ledger and the subsidiary ledger is not being performed. Variances that arise are not being resolved in a timely manner.

Recommendation

Reconciliations between the subsidiary ledger and the general ledger should be performed on a periodic basis so that any variances that arise may be resolved in a timely manner.

4. INVENTORY CONTROLS

Finding

Our test counts of inventory and supplies on hand revealed significant differences between the detail inventory subsidiary ledger and actual recorded amounts. Such variances may arise from several internal control weaknesses (including the lack of reconciliation of the subsidiary to the general ledger as described above) as well the lag

PROVIDENCE WATER SUPPLY BOARD, CONTINUED

time between the purchase transaction and the receipt of corresponding documentation from the City's purchasing system. In addition, access to the stockroom is not restricted. When equipment is needed any employee may remove it from the stockroom and surrounding areas (garage and yard).

Recommendation

The accounting controls over entries to the inventory detail ledger should be reviewed and improved to help ensure that recorded amounts are accurate and that all activity (purchases and uses of inventory) is recorded.

Access to the stockroom should be limited to stockroom employees and supervisors. Adequate documentation should be required in order to remove items from stock.

At a minimum, to provide a more accurate inventory value on the books of the Water Supply Board at the end of the fiscal 1985, a physical inventory count should be undertaken and the records should be adjusted to reflect the actual quantity of goods on hand.

The Board may also wish to perform a physical count and records adjustment prior to June 30, 1985, however annual inventory counts as of the fiscal year end should be adopted as a standard procedure.

5. SEGREGATION OF DUTIES

Currently, data processing personnel make entries to the accounting records for various reasons. This results in reduced internal controls in that there is often no check or review of such entries by a second person. Proper segregation of duties usually implies that data processing personnel be prevented from initiating and making accounting entries. At a minimum, all such entries should be reviewed and approved by a person independent of the data processing function.

6. UTILITY PLANT RETIREMENT ACCOUNTS

Costs associated with the removal of assets such as water mains and hydrants are currently being capitalized as "utility plant retirement accounts." These costs should be expensed, as should the net book value (original cost less related accumulated depreciation) of the asset being removed.

7. WATER METER SALES

Revenue from the sale and installation of water meters should be recorded as revenue rather than as a direct entry to contributed capital. Revenue should not be recorded when the cash is received but rather when the installation has taken place (usually at a later date).

PROVIDENCE WATER SUPPLY BOARD, CONTINUED

8. INTERFUND ACCOUNT

Finding

The Water Supply Board does not have its own cash account. Instead all cash receipts and disbursements are handled by the City's General Fund and recorded on the Water Supply Board's records through an interfund account. Currently, the interfund balance between the Water Supply Board and the General Fund is not being reconciled. Consequently, there is no assurance that the cash transactions recorded in the General Fund are being accurately recorded on the Water Supply Board's books.

Recommendation

City and Water Supply Board officials should jointly develop and adopt reconciliation procedures for the interfund account. The procedures should include a timely and regular reconciliation of the interfund account. All variances should be investigated and promptly resolved.

We also recommend that a separate cash account for the Water Supply Board not be established until there has been substantial improvement in the system of internal controls as described in our previous comments above.

9. COLLECTIBILITY OF RECEIVABLES

Finding

There is a substantial amount of past due receivables as of June 30, 1984, including over \$1,100,000 which is over one year past due. Improved collection efforts could result in improved cash flow and working capital availability to the Board.

Recommendation

To improve collectibility and maximize the available revenues, the following should be performed.

- Develop aging reports which provide useful information as to the amount and extent of past due accounts. These reports should be prepared regularly, such as monthly.
- Strengthen and formalize specific policies and procedures governing the nature and timing of collection efforts.
- Monitor the status of collection efforts on a regular basis.

It should be noted that the actual collection receipts are received through the City Collector's office. Any changes or improvements in the collection process will require the cooperation and consultation of the City Collector.

CITY OF PROVIDENCE, RHODE ISLAND
Comments Relating to Federal Grants

June 30, 1984



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

AUDITORS' REPORT ON COMPLIANCE - FEDERAL GRANTS

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

We have examined the combined financial statements of the City of Providence, Rhode Island for the year ended June 30, 1984 and have issued our report thereon dated November 28, 1984. We did not examine the financial statements of the Providence Civic Center Authority, the financial statements of which were examined by other auditors whose report thereon has been furnished to us and our opinion on the City's combined financial statements, insofar as it relates to amounts included for the Providence Civic Center Authority is based solely upon the report of the other auditors. The Providence Civic Center Authority administers no Federal grants.

Our report on the combined financial statements was qualified due to the following:

- Uncertainties regarding outstanding litigation and claims
- Questioned costs on Federal grants
- 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 and, as it relates to supplementary data in the Supplementary Schedule of Active Federal Grants included in this report, the provisions of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions," promulgated by the Comptroller General, which pertain to financial and compliance audits; the Office of Management and Budget's "Major Compliance Features of Programs Administered by State and Local Governments" (Compliance Supplement -Revised); and, except as described in the following paragraphs, provisions of Office of Management and Budget (OMB) Circular A-102, "Uniform Administrative Requirements for Grants-In-Aid to State and Local Governments," Attachment P, "Audit Requirements" and the "Guidelines for Financial and Compliance Audits of Federally Assisted Programs" (Guidelines) and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The reporting objectives for compliance audits contained in the Guidelines suggest an examination of all transactions for compliance purposes, as opposed to the selective testing required by Attachment P; therefore, we have followed the reporting objectives of Attachment P. In addition, the Guidelines do not provide sufficient guidance for determining the representative number of charges to be examined and performing the procedures to ascertain compliance. Accordingly, we utilized other materials as supplements in those areas.

Attachment P requires that the examination include a determination of whether the Federal financial reports (including financial status reports, cash reports, and claims for advances and reimbursements) prepared by the City of Providence, Rhode Island contain accurate and reliable financial data. We have been informed that OMB interprets the phrase "accurate and reliable financial data" to mean that the Federal financial reports present the underlying financial data of the grants within limits that are reasonable and practicable to attain under the circumstances.

In our opinion, except for the matters that might have come to our attention had our examination encompassed the provisions of the Guidelines referred to in the third preceding paragraph, for the tested operations and records, the City of Providence, Rhode Island complied with the material terms and conditions of the Federal grants, contracts and agreements, and the tested Federal financial reports present the underlying financial data of the grants within the limits described in the preceding paragraph, except as noted in the "Compliance Findings" sections which appear on pages 24 to 38. Further, based upon our examination and the procedures referred to above and except for the matters that might have come to our attention had our examination encompassed the provisions of the Guidelines referred to in the third preceding paragraph, nothing came to our attention, except as noted in the "Compliance Findings" sections to indicate that the City of Providence, Rhode Island had not complied with the compliance matters referred to above, and the Federal financial reports do not present the underlying financial data of the grants within the limits described in the preceding paragraph.

This report is intended solely for the use of the City of Providence, Rhode Island and the cognizant and other Federal audit agencies and should not be used for any other purpose.

Pert, Mancini, Mitchell Co.

November 28, 1984



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

AUDITORS' REPORT ON INTERNAL CONTROL - FEDERAL GRANTS

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

We have examined the combined financial statements of the City of Providence, Rhode Island for the year ended June 30, 1984 and have issued our report thereon dated November 28, 1984. We did not examine the financial statements of the Providence Civic Center Authority, the financial statements of which were examined by other auditors whose report thereon has been furnished to us and our opinion on the City's combined financial statements, insofar as it relates to amounts included for the Providence Civic Center Authority is based solely upon the report of the other auditors. The Providence Civic Center Authority administers no Federal grants.

Our report on the combined financial statements was qualified due to the following:

- Uncertainties regarding outstanding litigation and claims.
- Questioned costs on Federal grants.
- 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 City's systems of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- | | |
|--|-----------------------------|
| • Payroll | • Governmental fund revenue |
| • Accounts payable and expenditures/expenses | • Investments |
| • Debt | • Grant revenue |
| | • Inventory |

Our study included all of the control categories listed above. However, in the categories of debt, investments and inventory, we did not evaluate the system of internal accounting controls, other than to obtain an understanding of these controls as contemplated by generally accepted auditing standards, because substantive testwork was considered to be more cost effective. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the City's combined financial statements. 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 controls identified above.

The Mayor, City Council and management of the City of Providence, Rhode Island are responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the City are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the City 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, Rhode Island taken as a whole or on any of the categories of controls identified above. 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 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 as "material weaknesses." In addition, we have noted and commented upon nonmaterial weaknesses for which corrective action may be practicable in the circumstances. Our comments appear under the captions "Internal Controls over Federal Grants" and are included with those regarding compliance on pages 24 to 38 and have been 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 our examination of the 1984 combined financial statements and this report does not affect our report on these combined financial statements dated November 28, 1984.

This report is intended solely for the use of the City of Providence, Rhode Island and the cognizant and other Federal audit agencies and should not be used for any other purpose.

Peat, Marwick, Mitchell Co.

November 28, 1984

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT

The following is a summary of our findings from our financial and compliance audit of the grants administered by the Mayor's Office of Community Development (MOCD) and the Providence Office of Economic Development.

The findings are presented in 3 parts:

- A. Prior Year Findings
- B. Compliance Findings
- C. Internal Controls over Federal Grants

A. PRIOR YEAR FINDINGS

The following are descriptions of the findings of other auditors which were included in their prior year audit report as well as the current status of the finding.

1. EXCESSIVE DRAW DOWN OF 8TH YEAR FUNDS (FY 1983)

Condition

The accounting records of MOCD indicated that \$39,461.96 of funds were drawn down in excess of 8th year (FY 1983) budgeted amounts. It was recommended that accounting personnel of MOCD follow established MOCD accounting procedures. The imbalances between HUD records and those of MOCD must be reconciled.

Status

While this finding has not been formally closed, the problem did not reoccur in fiscal year 1984.

Grantee's Response

The imbalances between HUD records and those of MOCD were reconciled and posted. HUD will be so notified.

2. URBAN RENEWAL SURPLUS FUNDS

This finding has been closed by the grantor agency.

3. CHURCH RESTORATION

This finding has been closed by the grantor agency.

4. PROVIDENCE OFFICE OF ECONOMIC DEVELOPMENT - \$30,000 APPLICANT

This finding has been closed by the grantor agency.

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT, CONTINUED

B. COMPLIANCE FINDINGS

1. PAYROLL COSTS CHARGED TO PROGRAMS

Findings

- a. An employee on the MOCD payroll charged to the Community Development Block Grant during fiscal 1984 was in fact assigned to the City's Building Inspection Department. No documentation exists which supports that the employee's duties were related to Community Development activities. The payroll and related direct costs of this employee amounted to approximately \$34,000 during 1984.
- b. Two employees whose payroll costs are expenditures of the Providence Office of Economic Development (POED) were noted to have performed duties related to operations of the Port of Providence during fiscal 1984. POED functions as a subgrantee of MOCD. No documentation exists which supports that the employees' duties were related to Community Development activities. The payroll and related costs of these employees amounted to approximately \$4,600 during fiscal 1984.

Recommendation

Only qualified costs which are directly related to Community Development activities should be charged to grant programs.

Grantee's Response

- a. An MOCD employee was assigned to the City's Building Inspection Department to assist in the backlog of housing code inspections generated by the CD Program. He was transferred back to the MOCD offices when the CD Rehab Program was temporarily suspended. That program is in the process of being revamped.
- b. The two POED employees were assigned to the Port of Providence during the month of July 1983 at a total salary cost at the amount indicated for economic development related activities.

2. IMPROPER COST ALLOCATIONS

Findings

- a. Certain payroll costs of non-MOCD City employees working in the Office of the Mayor were allocated to MOCD and charged to the Community Development Block Grant (CDBG). No documentation exists which supports that these costs were incurred in relation to Community Development activities. Further, there is no approved indirect cost allocation plan. The amount of such costs in question was approximately \$70,500 during fiscal year 1984.

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT, CONTINUED

- b. The cost of two microcomputers acquired during fiscal 1984 was charged to the CDBG. The computers were noted to be in another City department during our examination and thus were not being used directly for Community Development activities. The cost of the computers was approximately \$20,100.

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

- a. Fifty (50%) to seventy (70%) percent of the weekly salaries of fifteen (15) staff employees on the Mayor's payroll were paid a total of \$70,500 for Community Development related activities. Specifically, some of the staff worked out of the Mayor's Citizens Assistance Office and handled inquiries largely from residents of low-moderate income areas. A large part of those inquiries were Community Development related. Another group of staff worked gathering data required to satisfy Federal Agencies re: UDAG applications.
- b. The two (2) microcomputers charged to the CDBG Program were and are being utilized by the Mayor's Office to monitor the receipt and compliance of complaints largely received from low-moderate income residents. An analysis of compliance will serve to assist in assessing future year Community Development needs.

3. MAINTENANCE OF EFFORT

Finding

Reimbursements to the General Fund of the City were made in the amount of approximately \$301,000 in October 1983. The reimbursement was for the cost of leasing fire equipment. Previously, such costs were assumed by the City's General Fund. Transfer of costs in this manner appears to constitute a violation of the "maintenance of effort" criteria concerning allowability of costs.

Recommendation

The City and the grantor agency should determine if such costs are in fact allowable under the provisions of the CDBG program.

Grantee's Response

The leasing of fire equipment is an eligible CDBG expenditure and did not replace City funds.

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT, CONTINUED

City funds were not available for the fourth year of the five year lease, and it was necessary to make that payment with CDBG funds or compromise fire protection services within low-moderate income Community Development eligible areas.

4. INSUFFICIENT DOCUMENTATION

Findings

- a. Two payments to a contractor which were charged to a CDBG financed project were noted to lack proper supporting contractor invoices. In addition, the MOCD internally prepared documentation on hand was lacking certain approvals called for by MOCD internal control policies including approvals of the fiscal director and the program director. The amount of costs in question aggregated approximately \$33,400.
- b. A payment to another contractor which was charged under the CDBG program was noted to lack a vendor supplied invoice (AIA form) and also lacked the signature of the contractor. Internal MOCD approvals were also missing from the supporting documentation including those of the fiscal director and the program director. The amount of the cost in question was \$3,900.

Recommendation

All costs charged to grants should be supported by all appropriate documentation.

Grantee's Response

- a. We agree. Internal control was lacking, but is being restructured in a manner consistent with good management practices.
- b. Same as above.

5. INELIGIBLE GRANT RECIPIENT - RELATED PARTY

Finding

A combination grant and loan was given to a recipient whose annual family income (\$19,188) exceeded the income eligibility limit (\$17,850) for a Home Improvement Program loan. The total amount of the grant and loan expended during fiscal 1984 was \$3,330 and \$4,185 was expended during fiscal 1983. The recipient is reportedly the brother of an MOCD employee.

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT, CONTINUED

Recommendation

Income eligibility guidelines should be strictly applied when determining grant or loan eligibility. Specific rules concerning MOCD grants and loans to related parties should be developed to ensure that such activity is handled as a truly arms-length transaction. Grants or loans to related parties should be reviewed and approved by the highest levels of management.

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 reinstated until those procedures are in place and are acceptable to HUD.

6. LOAN OF PROGRAM FUNDS

Finding

A loan in the amount of \$168,000 was granted during fiscal year 1983. The terms of the loan called for repayment by June 2, 1983. To date, no principal payments have been received and interest is also delinquent. Little documentation exists to support the purpose of the loan as Community Development related. Further, there is little evidence of any strong collection efforts being made against the borrower or its general partners.

The loan has been classified as a bad debt in the MOCD financial statements. Bad debts are not allowable grant costs according to OMB Circular A-87.

Recommendation

The purpose of the loan should be determined and the proper documentation relating to it should be obtained. All reasonable collection efforts should be expended.

Grantee's Response

The local HUD office has been contacted on this matter, and we have been informed that a letter is expected that would approve the conversion of the \$168,000 loan to a grant.

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT, CONTINUED

7. INELIGIBLE GRANT RECIPIENTS

Findings

- a. A Home Improvement Program grant was given to a recipient whose annual family income (\$13,500) per the grant application exceeded the income eligibility requirement (\$9,750) for a family of one. The amount of the grant expenditure was \$19,900, including \$3,925 in fiscal year 1984 and \$15,975 in fiscal year 1983.
- b. Another Home Improvement Program grant was given to a recipient whose annual family income (\$15,354) per the grant application exceeded the income eligibility requirement (\$13,950) for a family of four. The amount of the grant expenditure was \$4,575.

Recommendation

Income eligibility requirements should be strictly followed when determining recipient eligibility.

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 reinstated until those procedures are in place and are acceptable to HUD.

8. CHANGE ORDERS

Findings

Many of the Home Improvement Program expenditures examined by us were noted to have "change orders" which increased the expenditure amount subsequent to the original award of the contract. (See our related internal control comment concerning change orders.) The following change orders were noted which appeared to be for construction work that probably could have been anticipated at the time of the original request for bid or were for work which was completely unrelated to the original bid. The effect of the change order was to increase the actual expenditure amount above the amount of the second lowest original bidder.

<u>Homeowner</u>	<u>Amount of Change Order</u>
A	\$ 261
B	3,100
C	2,050
D	<u>7,700</u>
	\$ <u>13,111</u>

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT, CONTINUED

Recommendation

The use of change orders should be restricted to more appropriate circumstances. See also our related internal control finding and recommendation on change orders.

Grantee's Response

We agree with the finding and recommendation; see our response to comment number 7. regarding this program.

9. SUBGRANTEE AUDIT REPORTS

Finding

The following subgrantee audit reports did not contain the required language specified in the contract between the MOCD and the subgrantees.

1. OIC of Rhode Island
2. Keep Providence Beautiful
3. Joslin Neighborhood Housing Corporation
4. Elmwood Foundation
5. Stop Wasting Abandoned Property

The subgrantee contract specifically states that an annual audit must be conducted in accordance with Federal Audit Guidelines and Standards for Community Development Block Grant recipients of OMB Circular A-102 and A-122.

Recommendation

The subgrantees should be more carefully instructed as to the requirements of the required audit reports. MOCD should consider rejecting as unacceptable any future audit reports which are not in conformity with Federal standards. This rejection then could be communicated by letter to the subgrantee and its auditors.

Finding

Subgrantee audit reports have not been submitted by the following subgrantees for fiscal years 1983 and 1984.

1. New Homes for Federal Hill
2. South Providence Revitalization
3. Providence Housing Authority
4. Downtown Providence Improvement Association
5. Joseph Vellino, Jr. Associates

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

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT, CONTINUED

Recommendation

MOCD should develop a procedure to ensure that subgrantees submit annual audited financial statements and audit reports on a timely basis. As a practical matter, this requirement could be enforced simply by refusing to make further payments to the subgrantee until the audit reports have been submitted.

Grantee's Response

These findings will be satisfied by notifying each subgrantee that its annual audit must be in compliance with the contract provisions, and, in particular, in accordance with the Federal Audit Guidelines and Standards for Community Development Block Grant recipients of OMB Circular A-102 and A-122.

10. GRANTEE PERFORMANCE REPORT

Finding

The 1984 MOCD Performance Report was not submitted within two months of year end as is required by Federal guidelines.

Recommendation

The Performance Report should be submitted on a timely basis.

Grantee's Response

Due to recent changes of management at MOCD, submission of the Performance Report was delayed so that the report could be fully reviewed by the new executive director. Future Performance Reports will be submitted on a timely basis.

C. INTERNAL CONTROLS OVER FEDERAL GRANTS

Material Weaknesses:

1. INTERNAL CONTROLS OVER PROGRAM EXPENDITURES

Finding

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

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT, CONTINUED

Recommendation

It is incumbent upon MOCD to maintain adequate internal controls to ensure that expenditures are proper and qualified. The present system does not lend itself to consistent determination of 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 MOCD personnel.

Grantee's Response

New management procedures will be instituted to correct these deficiencies.

2. CHANGE ORDERS

Finding

As noted in our compliance findings, the frequent use of change orders for contractors involved in the Home Improvement Program appears to be an abuse of the competitive bidding system. Many 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, the pervasive use of them appears to be a problem.

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

New management procedures will be instituted to correct these deficiencies.

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT, CONTINUED

3. PRIOR YEAR AUDIT ADJUSTMENTS

Finding

It was noted that some of the adjusting journal entries from the 1983 audit had not been posted to the accounting records. Therefore, the accounting records did not agree with the audited MOCD financial statements.

Recommendation

Prior to authorizing the release of the financial statements, management should read the financial statements and ascertain that they are in agreement with the accounting records.

Grantee's Response

All current year audit adjustments have been posted.

4. ACCOUNTING SYSTEM

Finding

The present accounting systems of MOCD and the Office of Economic Development are 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.

Recommendation

Development and implementation of an accounting system for Federal grants which will meet the City's needs should be made a high priority. Integration of certain other grants administered by other departments within the new accounting system should also be considered.

Grantee's Response

The system of accounting is being evaluated and will be revamped, if necessary, to satisfy professional accounting standards. It is noted that the consolidation of the MOCD program with the computerized (Wang) accounting system used by the City's Department of Planning and Urban Development should effectuate immediate and positive changes.

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT, CONTINUED

Nonmaterial Weaknesses:

5. HOME IMPROVEMENT LOAN DELINQUENCIES

Finding

Approximately fifty-nine percent of Home Improvement Loans are past due as of June 30, 1984. A default rate of this magnitude appears to be excessive by most lending standards.

Recommendation

The MOCD should take steps to determine that any future loans under this program are made to only qualified borrowers. Further, all possible collection efforts should be undertaken to assist in the collection of those amounts which are currently past due.

Grantee's Response

As noted previously, the program has been shut down since October 1984 and is being redesigned. The program will not be reopened until proper procedures are in place and are acceptable to HUD.

6. CONTRACT DOCUMENTATION

Finding

During our audit, it was noted that the vendor contract files maintained in the Legal Department are incomplete with regard to bidding documentation.

Recommendation

We suggest that vendor contract files be improved to contain all of the required bidding documentation so that accurate and adequate information will be on hand.

Grantee's Response

Maintenance of the vendor contract files will be improved.

7. OFFICE OF ECONOMIC DEVELOPMENT FILES

Finding

Only one key exists (which is in the possession of the Director) to a file containing grant agreements and other important documents in the Office of Economic Development. During a period in which this person was absent, these documents were not available to us or any City personnel.

MAYOR'S OFFICE OF COMMUNITY DEVELOPMENT, CONTINUED

Recommendation

We suggest that additional keys be made and maintained so as to permit access to the file when necessary.

Grantee's Response

Additional keys will be obtained to assure access at all times to files.

8. MOCD/POED PAYROLL RECORDS

Finding

An Office of Economic Development is carried on the MOCD payroll and another employee who works for MOCD is on the POED payroll. This condition results in inaccurate payroll information.

Recommendation

All employees who work for MOCD and POED should be placed in the respective payrolls thereby providing proper payroll records for each of the departments.

Grantee's Response

Employees will be placed on proper payrolls to assure accurate payroll information.

PARKS DEPARTMENT

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

A. COMPLIANCE FINDINGS

1. INSTITUTE OF MUSEUM SERVICES GENERAL OPERATING SUPPORT GRANT

Finding

Employees of the Roger Williams Park and Zoo were paid approximately \$3,400 as allowances for automobile usage and benefits. There is no documentation that exists to support these expenditures.

Recommendation

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

Finding

The quarterly recipient reports of expenditure (OMB # 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.

B. INTERNAL CONTROLS OVER FEDERAL GRANTS

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.

PARKS DEPARTMENT, CONTINUED

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.

C. GRANTEE'S RESPONSES

The Parks Department has indicated that in response to the above compliance and internal control findings, the following steps are being taken:

1. Any automobile mileage or similar expenses must be supported by submission of a Mileage Sheet and approved by the immediate supervisor or administrator, then submitted to the Parks Department Superintendent and Fiscal Chief for approval.
2. Reports of expenditures must be reconciled with cash balances and must be approved by the Parks Department Fiscal Chief before submission.
3. A general ledger is being set up for the various grants and all transactions are to be properly recorded in it. Where appropriate, a separate file is to be maintained for each line item containing all supporting materials. Copies of all transactions are to be forwarded to the Superintendent and the Fiscal Chief.
4. All expenditures are to be approved by the Superintendent of Parks and the Fiscal Chief. The Fiscal Chief will periodically (monthly or bi-monthly) check the general ledger to ensure its being up to date. Ultimately, the approval for all disbursements will rest with the Office of the Superintendent/Fiscal Officer, so that the submission and approval of expenditures will be separate from the program administrators.
5. The Fiscal Chief has begun meeting with program staff and has examined records that they are gathering and organizing. The Fiscal Chief will set up the general ledger and instruct those authorized to keep records and make transactions in the procedures to be followed.

REVENUE SHARING

COMPLIANCE FINDING

The City is defendant in two claims which are being processed by the Equal Employment Opportunity Commission's Boston office. Both cases involve alleged discrimination on the basis of age.

CITY OF PROVIDENCE, RHODE ISLAND
Supplementary Schedule of Active Federal Grants

June 30, 1984



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

AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULE OF ACTIVE FEDERAL GRANTS

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

We have examined the combined financial statements of the City of Providence, Rhode Island for the year ended June 30, 1984 and have issued our report thereon dated November 28, 1984. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the Providence Civic Center Authority, the financial statements of which were examined by other auditors whose report thereon has been furnished to us and our qualified opinion on the City's combined financial statements, insofar as it relates to amounts included for the Providence Civic Center Authority is based solely upon the report of the other auditors. The Providence Civic Center Authority administers no Federal grants.

Our report on the combined financial statements was qualified due to the following:

- Uncertainties regarding outstanding litigation and claims
- Questioned costs on Federal grants
- 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 for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying information included in the Supplementary Schedule of Active Federal Grants for the year ended June 30, 1984 is presented for purposes of additional analysis and is not a required part of the combined financial statements of the City of Providence, Rhode Island. Such information has been subjected to the auditing procedures applied in the examination of the basic combined financial statements and, in our opinion, subject to the effects of such adjustments, if any, had the final determination been made as to whether the questioned costs are allowable, is fairly stated in all material respects in relation to the combined financial statements.

Peat, Marwick, Mitchell Co.

November 28, 1984

CITY OF PROVIDENCE, RHODE ISLAND
 Supplementary Schedule of Active Federal Grants
 For the year ended June 30, 1984

<u>Federal Funding Source and Grant Program</u>	<u>Grant Number</u>	<u>Total amount of grant awarded under the program</u>	<u>Amount of grant expenditures for year ended June 30, 1984</u>
U. S. Department of Housing and Urban Development (HUD):			
Community Development Block Grant (CDBG)	B-76-MC-44-0003	\$ 8,812,520 (1)	(1,629) (2)
CDBG	B-77-MC-44-0003	8,186,191 (1)	(5,071) (2)
CDBG	B-78-MC-44-0003	8,456,434 (1)	17,326 (2)
CDBG	B-79-MC-44-0003	8,906,790 (1)	25,986 (2)
CDBG	B-80-MC-44-0003	8,712,051 (1)	173,201 (2)
CDBG	B-81-MC-44-0003	8,983,134 (1)	263,408 (2)
CDBG	B-82-MC-44-0003	10,313,328 (1)	1,249,950 (2)
CDBG	B-83-MC-44-0003	6,523,704 (1)	5,336,532 (2)
Urban Development Action Grant (UDAG)	B-81-AA-44-0061	395,625	30,641 (2)
UDAG	B-79-AA-44-0008	7,050,000	2,987,380 (2)
UDAG	B-83-AA-44-0013	1,200,000	855,000 (2)
Jobs Bill	B-83-MJ-44-0003	2,532,000	<u>1,595,993 (2)</u>
			\$ <u>12,528,717</u>
U. S. Department of Interior:			
National Park Service - Urban Park and Recreation Recovery Program	44CTY0190-83-06	784,000	\$ <u>46,556 (3)</u>
U. S. Department of Commerce:			
Economic Development and Assistance Grant	01-25-01477-60	33,318	\$ <u>31,941 (4)</u>
U. S. Department of Transportation:			
Urban Mass Transportation Capital Improvement Grant	RI-03-0007	740,364	740,364 (5)
Urban Mass Transportation Capital and Operating Assistance Grant	RI-06-0010	48,302	<u>42,719 (5)</u>
			\$ <u>783,083</u>
National Endowment for the Arts:			
Folk Arts	32-5530-00130	25,500	23,350 (4)
City Arts	22-5530-435	20,000	<u>17,465 (4)</u>
			\$ <u>40,815</u>
U. S. Department of Education:			
Passthrough grants from Rhode Island:			
Chapter I	-	3,335,813	3,335,813 (6)
Chapter II	-	513,413	513,413 (6)
Title VI	-	537,440	537,440 (6)
Area Vocational Aid	-	80,304	80,304 (6)
Vocational Education	-	144,181	144,181 (6)
CETA	-	5,799	5,799 (6)
Providence Plan Section IV	-	621,579	621,579 (6)
Miscellaneous programs	-	<u>55,102</u>	<u>55,102 (6)</u>
			<u>5,293,631</u>
Grants from Federal Government:			
Title VII	-	840,871	840,871 (6)
Area Vocational Aid	-	80,304	80,304 (6)
Miscellaneous programs	-	152,604	152,604 (6)
Institute of Museum Services	G008303215	<u>50,000</u>	<u>50,267 (6)</u>
			<u>1,124,046</u>
			\$ <u>6,417,677</u>

(Continued)

CITY OF PROVIDENCE, RHODE ISLAND

Supplementary Schedule of Active Federal Grants, Continued

- (1) The following reconciles the original grant amount awarded to the amount disclosed:

<u>Grant</u>	<u>Original grant award</u>	<u>Reprogrammed unobligated funds from other program years</u>	<u>Reprogrammed unobligated funds to other program years</u>	<u>Adjusted grant award</u>
B-76	\$ 8,693,000	119,520	-	8,812,520
B-77	8,275,000	44,996	(133,805)	8,186,191
B-78	8,019,000	437,434	-	8,456,434
B-79	8,609,000	297,790	-	8,906,790
B-80	9,196,000	74,311	(558,260)	8,712,051
B-81	8,862,000	121,134	-	8,983,134
B-82	9,460,315	853,013	-	10,313,328
B-83	7,249,000	-	(725,296)	6,523,704

The following is a cross reference of the grant expenditures presented above to the applicable June 30, 1984 City of Providence financial statements:

- (2) These expenditures appear on the Combining Statement of Revenues and Expenditures for Special Revenue Funds (Schedule 4 to the City of Providence financial statements) and the Combining Statement of Revenues and Expenditures in the Mayor's Office of Community Development financial statements. 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 to the City of Providence financial statements.
- (3) These expenditures appear on Schedule 4 to the City of Providence financial statements.
- (4) These expenditures are included in the Miscellaneous Grant expenditures on Schedule 4 to the City of Providence financial statements.
- (5) These expenditures are included in the combined Capital Projects Funds expenditure amounts included on Exhibit B to the City of Providence financial statements.
- (6) These expenditures are included in the Other Educational Funds expenditures on Schedule 4 to the City of Providence financial statements.



FILED

JUL 29 3 03 PM '85

DEPT. OF CITY CLERK
PROVIDENCE, R.I.

Sept 24, 1985

Clerk

Re Received

Recommends

FINANCE

THE COMMITTEE ON