



CITY OF PROVIDENCE, RHODE ISLAND

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

Year Ended June 30, 2002

IN CITY COUNCIL
JUN 19 2003

READ
WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED.

Michael J. White
CLERK

CITY OF PROVIDENCE, RHODE ISLAND

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

Year Ended June 30, 2002

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600 Fleet Center
50 Kennedy Plaza
Providence, RI 02903-2321

**Auditors' Report on Compliance With Requirements Applicable to Each Major Program,
Internal Control Over Compliance and on the Schedule of Expenditures
of Federal Awards in Accordance With OMB Circular A-133**

The City Council
City of Providence, Rhode Island:

Compliance

We have audited the compliance of the City of Providence, Rhode Island, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit IV). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of a component unit, the Providence Public Building Authority which received federal assistance during the year ended June 30, 2002. Our audit, described below, did not include the operations of that component unit because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in items 2002-1, 2002-2, 2002-3 and 2002-6 in Section (3) of the accompanying schedule of current year findings and questioned costs (Exhibit IV), the City did not comply with requirements regarding the allowable costs that are applicable to the Title I (CFDA #84.010) and the Special Education Cluster (CFDA #84.027 and #84.173) programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.



In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in Section (3) of the accompanying schedule of current year findings and questioned costs as items 2002-4, 2002-5, 2002-7 and 2002-8.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in Section (3) of the accompanying schedule of current year findings and questioned costs as items 2002-1, 2002-2, 2002-3, 2002-5, 2002-6 and 2002-8.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2002-1, 2002-2, 2002-3 and 2002-6 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City as of and for the year ended June 30, 2002, and have issued our report thereon dated January 31, 2003. Our report refers to the adoption of Statement Nos. 34, 37 and 38 and Interpretation No. 6 of the Governmental Accounting Standards Board. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (Exhibit II) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Exhibit I

This report is intended solely for the information and use of the finance committee, elected officials, management, certain federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 16, 2003

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Expenditures of Federal Awards

Year ended June 30, 2002

Federal grantor/pass-through grantor/program title	CFDA number	(000's) Expenditures
<u>U.S. Department of Housing & Urban Development</u>		
Direct Programs:		
Community Development Block Grant	14.218	\$ 21,099
Emergency Shelter Grant	14.231	270
Housing Opportunities for Persons with AIDS	14.241	468
Lead Based Paint Hazard Control	14.900	1,475
Healthy Homes Initiative Grants	14.901	240
Home	14.239	2,384
HUD – Neighborhood Initiative Project	14.246	180
		<u>26,116</u>
<u>U.S. Department of Interior</u>		
Direct Programs:		
National Park Service	15.921	<u>15</u>
<u>U.S. Department of Transportation</u>		
Direct Programs:		
Highway Planning and Construction	20.205	<u>41</u>
<u>U.S. Department of Environment Protection</u>		
Direct Programs:		
Brownfield Pilots Cooperative Agreements	66.811	46
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	<u>9</u>
		<u>55</u>
<u>U.S. Department of Education</u>		
Direct Programs:		
Teacher Leadership Program in Literacy	84.215	79
Magnet Schools Assistance	84.165	1,154
21st Century Community Learning Programs	84.287	772
Passed through the State Department of Education:		
Title I	84.010	10,127
Working Wonders IV	84.276	75
Reading Excellence Tutorial Assistance	84.338	132
Adult Education State Grant Program	84.002	191
Migrant Education – Basic State Grant Program	84.011	28
Special Education Grants to State	84.027	2,522
Vocational Education – Basic State Grants	84.048	1,195
Innovative Education Program Strategies	84.298	552
Immigrant Education	84.162	384
Eisenhower Professional Development State Grants	84.281	139

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Expenditures of Federal Awards

Year ended June 30, 2002

Federal grantor/pass-through grantor/program title	CFDA number	(000's) Expenditures
Safe and Drug-Free Schools and Communities State Grants	84.186	\$ 446
School to Work Opportunities	84.278	26
Technology – Literacy Challenge Fund Grant	84.318	129
Comprehensive School Reform Demonstration	84.332	218
Class Size Reduction	84.340	2,988
Charter Schools	84.282	46
Arts in Education	84.351	95
Capital Expenses	84.216	50
Special Education Preschool Grant – Project Expand (Section 619)	84.173	226
		<u>21,574</u>
<u>U.S. Department of Agriculture</u>		
Passed through the State Department of Agriculture:		
National School Lunch Program	10.555	7,481
National School Breakfast Program	10.553	1,947
National School Milk Program	10.556	3
Food Distribution	10.550	573
		<u>10,004</u>
<u>U.S. Department of Labor</u>		
Passed through the State Department of Labor:		
Senior Community SVC Employment Program	17.235	414
Welfare to Work	17.253	2,010
WIA	17.255	779
WIA Youth Activities	17.259	1,178
WIA Dislocated Workers	17.260	655
		<u>5,036</u>
<u>U.S. Department of Health & Human Services</u>		
Passed through the State Department of Health and Human Services:		
Consolidated Knowledge Development and Application Program	93.230	502
Refugee and Entrant Assistance Discretionary Grants	93.576	182
		<u>684</u>
<u>U.S. Department of Emergency Management Assistance</u>		
Direct Programs:		
Reimburse Project Impact	83.551	3
Emergency Management Reimbursement	83.534	72
		<u>75</u>

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Expenditures of Federal Awards

Year ended June 30, 2002

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>(000's) Expenditures</u>
<u>U.S. Department of Justice</u>		
Executive Office for Weed & Seed	16.595	\$ 126
Byrne Formula Grant Program	16.579	162
LLEBG	16.592	194
Public Safety Partnership and Community Policing Grants	16.710	70
JUMP – Juvenile Mentoring Programs	16.726	31
Drug Free Communities Support Program Grants	16.729	75
		<u>658</u>
Total federal expenditures		\$ <u>64,258</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PROVIDENCE, RHODE ISLAND

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2002

(1) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

(2) School Cafeteria Programs

The City contracts with the Sodexo Marriot Corporation for the administration of the National School Lunch and School Breakfast programs. Program expenditures in the accompanying schedule of expenditures of federal awards represent amounts paid to the Sodexo Marriot Corporation during fiscal 2002.

(3) Home Program (CFDA #14.239)

The City passes-through 100% of the Home Program funding to the Providence Neighborhood Housing Corporation. This Corporation engages another independent auditor to perform its audit under OMB Circular A-133. The amount shown as expenditures in the accompanying Schedule of Expenditures of Federal Awards for the Home Program is the amount the City passes through to the Corporation.

(4) Workforce Investment Act (CFDA #17.255, 17.259, 17.260)

In the absence of guidance from the pass-through grantor, the City spent fiscal 2001 carryover funds under the CFDA numbers listed above in fiscal 2002. None of these individual CFDA numbers would have afforded Type A or major program status under OMB Circular A-133. However, at the City's request, the funds expended under these three CFDA numbers were audited as if they were spent under the "WIA Cluster" as defined in the OMB Compliance Supplement.



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Providence, RI 02903-2321

Exhibit III

**Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

The City Council
City of Providence, Rhode Island:

We have audited the basic financial statements of the City of Providence, Rhode Island, as of and for the year ended June 30, 2002, and have issued our report thereon dated January 31, 2003. Our report refers to the adoption of Statements Nos. 34, 37 and 38 and Interpretation No. 6 of the Governmental Accounting Standards Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in section (2) of the accompanying schedule of current year findings and questioned costs (Exhibit IV) as items 2002-1 through 2002-8.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration





Exhibit III

of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the finance committee, elected officials, management, and certain federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 16, 2003

CITY OF PROVIDENCE, RHODE ISLAND
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2002

(1) Summary of Auditors' Results

- (a) The independent auditors' report on the financial statements expressed an unqualified opinion.
- (b) Reportable conditions in internal control over financial reporting were identified, none of which are considered to be material weaknesses.
- (c) No instances of noncompliance considered material to the financial statements were disclosed by the audit.
- (d) Reportable conditions in internal control over compliance with requirements applicable to a major federal awards program were identified, of which four were considered to be material weaknesses.
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
- (f) The audit disclosed findings required to be reported by OMB Circular A-133.
- (g) The City's major programs were:

<u>Name of federal program or cluster</u>	<u>CFDA number</u>
Title I – Local Education Agencies	84.010
Immigrant Education	84.162
Special Education Cluster	84.027/84.173
Community Development Block Grant	14.218
Workforce Investment Act (WIA) Cluster	17.255/ 17.259/ 17.260

- (h) A threshold of \$1.9 million was used to distinguish between "Type A" and "Type B" programs as those terms are defined in OMB Circular A-133.
- (i) The City did not qualify as a "low-risk auditee" as that term is defined in OMB Circular A-133.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2002

(2) Financial Statements Findings Reported in Accordance With *Government Auditing Standards***Fiscal 2002 Activities**

During fiscal 2002, the City's finance department undertook two major tasks – implementing a new citywide computer system and complying with Governmental Accounting Standards Board Statement No. 34. Both these efforts required significant effort to be expended by the finance personnel in order to keep both tasks on track. The successful issuance of the City financial statements under the new standards and the successful implementation of the new computer system's general ledger and billing and collection modules strained the limited number of professional staff.

During the audit, we noted an overall improvement in the ability of the City to generate financial information. However, areas that continue to present challenges include the following:

2002-1: Staffing

In light of the City's new financial reporting model and the implementation of the new computer system, there is a need to supplement the finance staff. The complexities of both initiatives require more individuals with the skills to handle the responsibilities.

We recommend that a staffing analysis be performed to determine the appropriate number and needed skills to adequately handle the needs of the City. In conjunction with this assessment, the City should consider consolidating the various finance department personnel around the City to better utilize the talent currently on the payroll.

As part of the implementation of the computer system, the City should incorporate the accounting ledgers of the various City departments that are not currently on the centralized system. This would include planning, Civic Center Workforce Initiative Board and others. The City's new system should be the sole general ledger for the entire City, with the possible exception of the Water Board.

By consolidating finance activities, the finance personnel currently performing these functions can be better deployed.

Management Response:

Management concurs that additional staffing is necessary in the finance department. Recently adopted budgets have funded additional positions. The Controller's Office is currently in the process of interviewing and hiring two additional fiscal officers that should help with the workload. The City Assessor's Office also is in the process of trying to fill needed professional appraiser positions, and the new Administration is working with the Finance Director to help with the recruiting of needed staff.

2002-2: Closing of the Month-End and Year-End Books

Along with the restructuring of the finance function, the City must ensure that all City departments perform basic monthly analysis of their accounts so that all City activities are fairly and accurately presented in the City's books. Compilation of data, basic account reconciliations, income and expense analyses, and adjustments of errors are typically not done until and unless it is needed for the year-end audit. Monthly

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2002

analysis of activities is particularly critical for special revenue and school funds where federal and state funds are involved.

The City needs to take immediate and effective action to get all departments and component units throughout the City on a fixed and firm schedule for monthly analysis of activities as well as monthly and annual financial reporting. Without a structured plan, the City could receive inaccurate and stale financial information that could expose the City to the risk that assets may be misappropriated and not be detected in a timely fashion. Additionally, without monthly closings and timely recording of adjustments to the City's records, the City will not be able to produce financial statements prior to six months after year-end.

By centralizing the accounting functions for the City, this monthly and annual closing process could be streamlined.

Management Response:

Management concurs that monthly reconciliations are necessary to ensure accurate and timely financial statements. The new software that the General Fund and School funds are operating forces month-end closes which ensure month-end reconciliations. The School Department performs monthly reconciliation of all checking accounts and reports quarterly to the federal government on the various grants. In the case of PEDC, an additional staff person has been hired that should allow them to reconcile in a more timely manner. There have been significant improvements over recent years at Providence Water and the Civic Center reconciliations are performed by an employee of the building's Operation Management Company.

2002-3: Accounting for Debt

The City issued over \$70 million of General Obligation debt in fiscal 2002 and failed to record this activity on the general ledger. Such an oversight can and does produce inaccurate financial presentations throughout the year and could result in erroneous information being made public.

City management would have identified this accounting entry if regular monthly reconciliations of all accounts were performed. Because the Capital Fund reconciliation was not performed, this error was not caught until well after year-end.

We recommend that monthly reconciliations of the activity in the City's general ledger be performed and reviewed on a timely basis.

Management Response:

Management concurs that this happened. However, this did not jeopardize the spending of the bond proceeds or the repayment of this debt. The finance department tracks all debt services issues on Excel spreadsheets in order to avoid overcommitments and for debt repayment amounts and dates.

2002-4: Retirement System

Given the recent decline in the capital markets in recent years, the funded status of the retirement system has deteriorated to under 40%. Such a low funded ratio should be of great concern to the City since this liability must be satisfied with City resources through increased pension payments.

CITY OF PROVIDENCE, RHODE ISLAND**Schedule of Current Year Findings and Questioned Costs**

Year ended June 30, 2002

Management Response:

The City has a five-year plan, which is in the third year in fiscal year 2003, as a result of an April 2000 court decision to phase in approximately a \$16 million increase in contributions to fund the system at 100% of actuarial assumptions. The fiscal 2002 audit reflects only the first two payments of this plan, and with the three-year poor market conditions, investment results were negative and obviously did not achieve the 8.5% actuarial assumption for investment performance. As the City continues to move towards 100% funding of the annual assumption and the market recovers, the funded ratio will dramatically improve.

2002-5: Postretirement Health Benefits

In addition to the unfunded liability related to the City's retirement system, the City has, but is not required to record, a liability for postretirement health benefits. Although this is not required to be presented in the City's financial statements currently, it may be required to be presented in the future.

The City needs to begin assessing the size of this liability, which could be hundreds of millions of dollars, in order enhance the credibility of future financial projections and to establish a plan for funding these liabilities.

Management Response:

Management concurs and should begin to assess this cost. It is important to note that the City is currently exploring ways to minimize postretirement health benefits.

2002-6: Civic Center Support

In addition to the retirement system and postretirement health benefits commitments, the City also continues to subsidize the Providence Civic Center in the amount of \$430,000 in fiscal 2003. The City needs to assess whether or not the Civic Center should continue to be a drain on the City's resources or whether other alternatives, including selling the Civic Center, should be explored more aggressively.

Management Response:

The new Administration concurs and is exploring various options on what should be done with the Civic Center.

2002-7: Capital Assets

The City does not account for its Construction in Progress (CIP) in the City's fixed asset ledger. As part of the transition to the new financial accounting system, the City should ensure that CIP is properly tracked and accounted for. These tasks will help ensure that capital projects are monitored against budgets and that the City's financial reporting is proper.

CITY OF PROVIDENCE, RHODE ISLAND
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2002

Management Response:

The City accounts for its CIP, once a year, in its year-end Fixed Asset Account Group. However, the new software the City has implemented will provide a solution that will provide the necessary information on all fixed assets as well as construction in process of bond proceeds.

2002-8: School Department Indirect Costs

The School Department recovers indirect costs from the grants it receives and accumulates these recoveries in Fund 217. The City and the School need to determine how the indirect cost recoveries will be used and establish and enforce a policy to ensure that the funds are used in accordance with the policy. Without proper control over these funds, proper budgeting and spending of these funds cannot occur.

We recommend that the City and School determine how funds accumulated in the indirect cost fund should be used and how the spending of those funds should be authorized.

Management Response:

Consistent with last year's response, the School Department for FY03 has budgeted the indirect (Federal Grant Indirect Allocations) revenues directly in the School Fund in accordance with applicable federal regulations. The policy is that funds are transferred (not spent) from Fund 217 to the School Operating Budget as a revenue source.

2002-9 School Loans

During July 2001, a loan of \$250,000 was made by the School's indirect cost fund (fund 217) to a Special Education grant fund (fund 208). The purpose of the loan according to the City invoice was "Due to amended increasing grant award of Project-Extend (20831) has not been approved" and the loan was paid back in September 2001. Only one individual approved this loan.

While we do not believe intergrant borrowing should be a common practice, there may be certain situations where such a transaction is necessary. We recommend that a policy be established and adhered to regarding any type of interfund/intergrant borrowings. This policy should outline the specific situations when such loans are appropriate as well as the required approvals for making such loans.

Departmental Response:

The Providence School District does have a policy that does not allow intergrant borrowing. In the above-mentioned case, the money was operating money to be used by the School district. It was a short-term loan to cover a temporary cash shortfall that was alleviated when the grant proceeds were received.

The School District has a policy on the authorization for all direct payments; the policy is that the Chief Financial Officer, Controller and the Budget office, as well as the person that is authorized to approve the line item must initial or sign all direct payment invoices.

CITY OF PROVIDENCE, RHODE ISLAND**Schedule of Current Year Findings and Questioned Costs****Year ended June 30, 2002****2002-10 School Department - Title I Carryover**

The School Department was allocated \$11 million of Title I funding for fiscal year 2002. Of this amount, \$4 million was not expended in fiscal 2002 and carried over into fiscal 2003. A carry over of this magnitude violates the provisions of the Title I program and required the School Department to obtain a waiver of this provision. In February 2003, the School Department received the waiver from the State Department of Education allowing this excess carryover 'pending a decision by the US Department of Education concerning the methods used to sub-allocate Title I funds to Providence schools in previous years.' Such a waiver is allowed only once every three years.

We recommend the School Department more closely monitor the use of its Title I funding in fiscal 2003 in order to ensure they meet the grant's 85% spending requirement.

Departmental Response:

The Providence School Department does monitor the expenditure of Title I funds throughout the year.

However, the Department requires the schools and administrative department using district funds, regardless of the source, to make thoughtful effective decisions. Therefore, when the School Department staff realized there was the potential for exceeding the carry-over provision, communication between the Department and the State Department of Education ensued.

The State Department of Education assured the School Department a waiver would be available and the funds would not be lost.

This information allowed the district staff at all levels to plan and make thoughtful effective decisions, rather than make hasty, less effective spending decisions.

Management feels the decision to utilize the waiver provision was the correct one considering the circumstances, and the options available.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2002

(3) Findings and Questioned Cost Relating to Federal Awards

Finding Number: 2002-1

Federal Agency and Pass-Through Entity: U.S. Department of Education

CFDA Number: 84.010
84.027/84.173

Program: Title I
Special Education Cluster

Finding: Allowable Costs – “Failure to Maintain an Effort Reporting System”

Requirement:

OMB Circular A-87, Attachment B, paragraph 11.h.3 states that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

OMB Circular A-87, Attachment B, paragraph 11.h.3 states that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports. Such documentary support will be required where employees work on: (a) More than one Federal award, (b) A federal award and a non-Federal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity.

Additionally, OMB Circular A-87, Attachment B, paragraph 11.h.5, states that the personnel activity reports must meet the following standards:

- The reports must reflect an after-the-fact distribution of the actual activity of each employee. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to the Federal awards.
- Each report must account for the total activity for which each employee is compensated.
- The reports must be prepared at least monthly and must coincide with one or more pay periods.
- The reports must be signed by the employee.

Description:

During our testwork, KPMG noted that the School Department does not obtain the required, semi-annual certifications that, for individuals whose compensation is funded solely from a single cost objective (grant), the individual has been engaged only in the activities supported by the grant. Additionally, the

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2002

School Department does not maintain personnel activity reports documenting that individual's time is being charged to the grant based on after-the-fact actual activity of each employee.

We also noted that payroll costs of \$182,872 relating to teachers assistants that were originally paid in fiscal 2001 out of State and Local funds were reimbursed by the IDEA grant in 2002. This transfer of costs was done to bring certain schools into full compliance with Comparability provisions. While the State was notified of this adjustment to the 2000-2001 Title I comparability report, the charges to the IDEA grant were not based on approved personnel activity reports.

Questioned Costs: Not determinable

Recommendation:

We recommend the City institute a time and effort reporting system as required by federal regulation.

CITY OF PROVIDENCE, RHODE ISLAND
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2002

Finding Number: 2002-2

Federal Agency and Pass-Through Entity: U.S. Department of Education

CFDA Number: 84.010
84.027 / 84.173

Program: Title I
Special Education Cluster

Finding: Allowable Costs – “Failure to Support Personnel Activities”

Requirement:

Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of OMB Circular A-87, and that the total compensation for individual employees is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities, follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and is determined and supported in accordance with as provided in subsection (h) of OMB Circular A-87 (see Finding 2002-1 for subsection (h) definition).

Description:

During our testwork, KPMG noted that the documentation in the personnel files maintained by the School's Human Resources Department did not support the amount of payroll costs charged to the Title I and Special Education grants.

All payroll costs charged to grants should be supported by documentation maintained in the personnel files of those individuals being charged to the grant. Such documentation should include information such as the authorization of the salary paid, authorization and amount of 'extra' pay and the source of funds that will support the position.

Questioned Costs: Not determinable

Recommendation:

We recommend proper documentation to be maintained to support charges to grants.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2002

Finding Number: 2002-3

Federal Agency and Pass-Through Entity: U.S. Department of Education

CFDA Number: 84.010
84.027/84.173

Program: Title I
Special Education Cluster

Finding: Allowable Activities and Allowable Costs

Requirement:

OMB Circular A-87, Attachment B paragraph 11.h.3 states that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

OMB Circular A-87, Attachment B paragraph 11.h.4. states that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on: (a) More than one Federal award, (b) A Federal award and a non-Federal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity. Additionally, OMB Circular A-87, Attachment B paragraph 11.h. 5 states that the personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee, (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly if necessary, to reflect changed circumstances.

Description:

The School Department could not provide a listing of individuals/positions to support the instructional FTEs included in the Title I and Special Education grant applications, nor did the FTEs in the grant agreement agree with the total FTEs per the payroll system. In addition, 64 FTEs in the Title I application and 325 FTEs in the IDEA application should not have been included as FTEs.

CITY OF PROVIDENCE, RHODE ISLAND
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2002

After adjusting for the erroneous FTEs, the FTEs per the Title I grant agreement still differed from the payroll system as follows:

Administrative – The FTEs per the grant agreement exceeded the FTEs per the payroll system by 17 FTE's (27.5 versus 10.5)

School wide - The FTEs per the grant agreement exceeded the FTEs per the payroll system by 4.5 FTE's (197 versus 192.5)

After adjusting for the erroneous FTEs, the FTEs per the Special Education grant agreement differed from the payroll system as follows:

Instructional – The FTEs per the grant agreement exceeded the FTEs per the payroll system by 17 FTE's (27.5 versus 10.5)

School wide - The FTEs per the grant agreement exceeded the FTEs per the payroll system by 4.5 FTE's (197 versus 192.5)

Because these differences could not be explained, we could not determine whether the approved number of FTEs per the grant agreement was charged to the grant and whether the appropriate FTEs and related salary costs were charged to the program based on the approved application.

Questioned Costs: Not determinable

Recommendation:

We recommend information supporting grant applications and charges to grants be properly supported.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2002

Finding Number: 2002-4

Federal Agency and Pass-Through Entity: U.S. Department of Education

CFDA Number: 84.027
84.173

Program: Special Education Cluster

Finding: Activities Allowed/Unallowed

Requirement:

An LEA may use Federal funds under IDEA, Part B for the excess costs of providing special education and related services to children with disabilities. Special education includes specially designed instruction, at no cost to the parent, to meet the unique needs of a child with a disability, including instruction conducted in the classroom, in the home, in hospitals and institutions and in other settings, and instruction in physical education, home instruction and instruction in other settings. Related services include transportation and such developmental, corrective and other supportive services as may be required to assist a child with a disability to benefit from special education. A portion of these funds, under conditions specified in the law, may also be used by the LEA for services and aids that also benefit nondisabled children and for the development and implementation of integrated and coordinated services systems (20 USC 1401(22) and (25); 20 USC 1413(a)(2) and (a) (4)).

Description:

The Rhode Island Department of Education allows the Providence School Department to use IDEA funds for personnel development, particularly in the area of addressing the shortage of qualified staff for students with disabilities who require bilingual special education or therapy services. However, during our testwork, we noted that tuition for the teacher was charged to the IDEA grant even though the teacher was not identified as a special education teacher.

Questioned Costs: \$4,123

Recommendation:

We recommend only approved and allowable costs be charged to grants.

CITY OF PROVIDENCE, RHODE ISLAND
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2002

Finding Number: 2002-5
Federal Agency and Pass-Through Entity: U.S. Department of Education
CFDA Number: 84.027
84.173
Program: Special Education Cluster
Finding: Level of Effort – Maintenance of Effort

Requirement:

IDEA, Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal to the amount of local funds, or a combination of State and local funds expended for this purpose by the LEA in the prior fiscal year.

Description:

The Providence School Department only validates the level of effort on an annual basis by ensuring that funds spent during the current fiscal year exceed the funds spent in the immediate preceding year. To avoid a potential loss in future federal funding, the School Department should consider implementing controls that would ensure that this requirement is monitored throughout the year.

Questioned Costs: Not determinable

Recommendation:

We recommend that the level of effort be monitored at least quarterly to ensure compliance throughout the year.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2002

Finding Number: 2002-6

Federal Agency and Pass-Through Entity: U.S. Department of Education

CFDA Number: 84.010

Program: Title I

Finding: Eligibility – Eligible School Attendance Areas and Allocation of funds to Eligible School Attendance Areas and Schools

Requirement:

An LEA must determine which school attendance areas are eligible to participate in Part A. A school attendance area is generally eligible to participate if the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the LEA as a whole or at least 35 percent poverty.

An LEA must allocate Part A funds to each participating school attendance area or school, in rank order, on the basis of the total number of children from low-income families residing in the area or attending the school. In calculating the total number of children from low-income families, the LEA must include children from low-income families who reside in a participating area and attend private schools, using the same poverty data, if available, as the LEA uses to count public school children.

An LEA must rank all of its school attendance areas in rank order of poverty using the same measure of poverty for identifying eligible school attendance areas, determining the ranking of each area and determining the allocation for each area. The LEA must select a poverty measure from the following options: a) Children ages 5-17 in poverty counted in the most recent census data approved by the Secretary, b) Children eligible for free and reduced-price lunches under the National Free School Lunch Act, c) Children in families receiving assistance under the Temporary Assistance for Needy Families (TANF) program, d) Children eligible to receive medical assistance under the Medicaid program, and e) A composite of any of the above measures.

Description:

Information to complete annual ranking reports is provided by the State Department of Education. The information is data for October of each year. The Providence School Department does not use this information to complete its ranking reports, but instead uses the recent census data maintained within the School Department's enrollment system. During our testwork of the census data, KPMG noted that the student enrollment counts by census tract included in the ranking documentation did not agree to the enrollment system census tract reports for six out of the ten schools reviewed.

KPMG also noted during our review of the Ranking Report that some of the information provided does not appear reasonable such as the count of eligible low income students in an area appear to be significantly greater than the total number of students enrolled in the school attendance area.

CITY OF PROVIDENCE, RHODE ISLAND
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2002

Questioned Costs: Not determinable

Recommendation:

We recommend data supporting the ranking reports be properly maintained and reviewed.

CITY OF PROVIDENCE, RHODE ISLAND
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2002

Finding Number: 2002-7
Federal Agency and Pass-Through Entity: U.S. Department of Education
CFDA Number: 84.010
Program: Title I
Finding: Period of Availability

Requirement:

An LEA that receives \$50,000 or more in Title I Part A funds has an initial 15 months of availability and may carryover no more than 15 percent of the Title I, Part A funds.

Description:

During our expenditure testwork, KPMG noted that reimbursement to the Times 2 Academy for the 2000 and 2001 fiscal years was charged to the fiscal year under audit (2002). While the amount related to 2001 may be eligible to be charged to the 2001 carryover amount, the fiscal year 2000 amount was paid outside the established period of availability.

Questioned Costs: Undetermined

Recommendation:

We recommend only allowable costs be charged to grants.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2002

Finding Number: 2002-8

Federal Agency and Pass-Through Entity: U.S. Department of Housing and Urban Development

CFDA Number: 14.218

Program: Community Development Block Grant

Finding: Program Income - Loan Authorization

Requirement:

Making loans and collecting the payments on those loans can be a significant source of program income for grantees. The use of income derived from loan payments is subject to program requirements. This carries with it the responsibility for grantees to have a loan origination and servicing system in effect which assures that loans are properly authorized, receivables are properly established, earned income is properly recorded and used, and write-offs of uncollectible amounts are properly authorized (24 CFR sections 570.500, 570.501, 570.504, 570.506, and 570.513).

Description:

The City of Providence, Department of Planning and Development loans funding to various individuals and entities through the Revolving Loan Fund Programs. The City of Providence, Department of Planning and Development employs various individuals in the Providence Economic Development Corporation (PEDC) to make eligibility determinations and the PEDC Board of Directors approve all loans before disbursement to eligible applicants. During our testwork, we noted that out of the 29 files reviewed or the loans awarded in excess of \$100,000, 2 of the loans granted did not include the PEDC Board of Directors' approval. Additionally, during the review of the loan portfolio for the testwork, we noted that one loan for \$180,739 was written off as uncollectible by management without the approval of the Board of Directors.

KPMG recommends that the Department of Planning and Development verify that all the controls in place for the authorization of loans are being followed and that all loan activities be authorized by the PEDC Board of Directors in accordance with the departments policies and procedures.

Questioned Costs: Not determinable

Recommendation:

We recommend that all loans be properly approved by the Board.