



City of Gloucester City Council

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CITY COUNCIL STANDING COMMITTEE

Budget & Finance Committee

Thursday, February 17, 2011 – 6:00 p.m.
1st Fl. Council Conference Rm. – City Hall

AGENDA

1. *Continued Business*

- A) Giusti & Hingston & Co. discussion re: The 11 findings from the City's Agreed Upon Procedures Report on the End of Year Financial Report as of June 30, 2009 (Cont'd from 2/3/11) [Report in Agenda Packet dated 1/20/11]
- B) Food Service Deficit Discussion (Cont'd from 2/3/11)
- C) Grant Application Process (Cont'd from 02/03/11)

2. *City's submission to the EPA on the Public Comment: Tentative 201(h) Waiver Decision Document; Draft NPDES Permit (referred from City Council 02/08/11 and continued to 03/03/11)*

3. *Memo from City Auditor regarding accounts having expenditures which exceed their authorization*

COMMITTEE

Councilor Steven Curcuro, Chair
Councilor Paul McGeary, Vice Chair
Councilor Jacqueline Hardy

Committee members – Please bring relevant documentation

Back-up and Supporting Documentation all on file at the City Clerk's Office, City Hall

CC: Mayor Carolyn Kirk
Jim Duggan
Kenny Costa
Jeffrey Towne
Val Gilman
Dr. Joseph Connelly
Tom Markham

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CITY OF GLOUCESTER, MASSACHUSETTS
AGREED UPON PROCEDURES REPORT
ON THE END OF YEAR FINANCIAL REPORT
June 30, 2009

36 Jackman St., Unit 1 * Giusti, Hingston and Company * (Tel) 978-352-7470
Certified Public Accountants
Georgetown, MA 01833 *

City of Gloucester, Massachusetts
Agreed Upon Procedures Report on the
End of Year Financial Report
For the Year Ended June 30, 2009

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON
PROCEDURES

School Committee
Gloucester Public School District
6 School House Road
Gloucester, MA 01930

We have performed the procedures enumerated in the accompanying Summary of Procedures and Findings section of the Special Report that follows and is incorporated by reference herein. The procedures, which were agreed to by the City of Gloucester's School Department were performed solely to assist in determining if the School Department properly prepared and filed the Massachusetts Department of Elementary and Secondary Education's Annual Pupil and Financial Report for the year ended June 30, 2009. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the accompanying Summary of Procedures and Findings section that follows either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on any of the account totals included in the School Department's annual report or any other records of the School Department that may be referenced in our procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
July 8, 2010

City of Gloucester, Massachusetts
Special Report
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Scope

To determine whether:

1. Financial data reported on all End of Year Report schedules are traceable to the detail contained in the municipal or district accounting ledgers or records or to a documented methodology.
2. Non-financial data reported on all End of Year Report schedules are traceable to the district's records or to a documented methodology.
3. There are documented methodologies supporting the financial and other reported information contained in these schedules, whether these methodologies are followed, and whether the methodologies are reasonable.
4. Internal controls exist to provide reasonable assurance that the revenues, expenditures and other data are accounted for consistent with the Department regulations and guidelines.

Objectives

Determine whether required reports for Massachusetts School Districts include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with State requirements.

General Requirements

Procedure 1

For all EOYR Schedules (Except for Special Revenue Funds, which are not reported on the budgetary basis of accounting):

- A. Ascertain if the financial information was prepared in accordance with the budgetary basis of accounting (e.g., modified accrual plus current year encumbrances minus expenditures of prior year encumbrances).
 - a. Trace the amounts reported to accounting and other records that support the audited financial statements and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports that they agree with the accounting records. Note that expenditures of federal awards should be reported through the end of the grant period.

City of Gloucester, Massachusetts
Summary of Procedures and Findings
June 30, 2009
(Continued on Page 4)

- B. Trace non-financial data to records that accumulate and summarize data.
- a. Perform tests of underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the schedules. For Schedule 7, test eligibility criteria for reimbursable riders (pupils residing greater than 1.5 miles from their school of attendance.
 - b. When intervening computations or calculations are required between the records and the schedules, trace reported data elements to supporting worksheets or other documentation that link the schedules to the data.
- C. Determine if the District's accounting system meets the following DOE requirements:
- a. Determine whether the District uses an accounting system that provides for the reporting of all instructional costs by school location.
 - b. Determine if the accounting system is supported by up-to-date written policies and procedures and that the policies and procedures are followed on a uniform and consistent basis.
 - c. Determine if the District maintains written policies and procedures related to the classification of salaries and expenses by program, function and object and that the policies and procedures are followed on a uniform and consistent basis.

Results

The required testing was performed and any findings noted are reported below. We, also, offer the following recommendation.

Recommendation: The numbering scheme in the chart of accounts and the manner in which the school budgets certain positions/expenditures make preparation of the Pupil and Financial Report very difficult and time consuming. For example, the School budgets and expends the Transportation Coordinator's salary in function 2210 (School Leadership – Building) and the Transportation Maintenance salaries in function 4200 (which is not a function number in the Department of Elementary and Secondary Education's chart of accounts or the Pupil and Financial Report). The Transportation function number per the Department of Elementary and Secondary Education is 3300. In addition, certain benefits (related to transportation employees) are budgeted and expended in the transportation (3300) function instead of the Insurance for Active Employees' function (5200). The Pupil and Financial report only provides a reporting line for Professional Salaries for the Teachers, Classroom function (2305) and the Teachers' Specialists function (2310). However, the various schools have expense and other salary line items budgeted and expended in the 2305 and 2310 functions.

City of Gloucester, Massachusetts
Summary of Procedures and Findings
June 30, 2009
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Every time a salary/expenditure is not recorded in the general ledger in the proper function for Pupil and Financial Report purposes, a crosswalk or other method to ensure proper reporting must be implemented. This has proved to be a very difficult task for the school.

We recommend that the School review its chart of accounts and the manner in which it budgets for salaries and expenditures. The line item budgets should only include function numbers that coincide with function numbers in the Pupil and Financial Report (Currently the general ledger includes several function numbers that are not in the Report). Employees should be budgeted and charged to the functions as they would be reported in the Pupil and Financial Report.

Finding 1

Documentation relating to the number of students transported more than/less than 1 ½ miles was not available. As a result, we could not test the sample to determine the accuracy of the amounts reported in each category.

Procedure 2

Obtain written representation from management that the reports provided to the auditor are true copies of the EOYR submitted or electronically transmitted to the Department of Elementary and Secondary Education.

Results

A representation letter was received from management.

Specific Requirements

Schedule 1

- I. Revenue
 - A. Revenue from Local Sources

Procedure 1

Trace revenues from local sources reported on Schedule 1 to the municipal and district accounting ledger. Also, trace the revenues in the District's accounting ledger to revenue reported on Schedule 1. These amounts should agree.

Results

Finding 1

The "contract" payment (\$1,508,609) from the Massachusetts School Building Authority was not reported on line 130 of Schedule 1. All other amounts reported were materially correct.

- B. Revenue From Federal Grants
- C. Revenue From State Grants
- D. Revenue From Revolving and Special Fund

City of Gloucester, Massachusetts
Summary of Procedures and Findings
June 30, 2009
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Procedure 2

Trace revenues from state aid, federal grants, state grants, and revolving and special funds to the detail in the District's accounting ledger. These amounts should agree with the possible exception of state aid, federal grants, and state grants, which are entered by the State based on allotments.

Results

Finding 1

The Department of Elementary and Secondary Education (ESE) populates Schedule 1 for all state and federal grant revenues that are administered by ESE. However, there are some state and federal grants that are not administered by ESE. Those revenues must be entered on Schedule 1 by the School Department. We noted that revenues related to the following grants were not reported.

1. Early Childhood grant revenues (\$23,468) should be reported on line 481 - column 2.
2. Essential Health grant revenues (\$95,000) should be reported on line 590 - column 2.

Finding 2

We noted that the revenues reported revolving and special funds did not equal the amounts recorded in the general ledger as detailed below.

1. The revenues reported for School Lunch were \$102,864 less than the amount recorded in the general ledger.
2. A majority of the revenues related to the special funds (i.e. building use, Gloucester Education Foundation, transportation, pre-school...) were not reported.

II. Expenditures

- A. By School Committee
- B. By City or Town

Procedure 1

Trace the amounts reported for general fund education expenditures from Schedule 1 line 1850 to the municipal accounting ledgers and to the District's accounting ledger. Also trace the expenditures reported on the District's accounting ledgers to expenditures reported on Schedule 1. These amounts should agree. If a "crosswalk" exists between the accounting ledgers and the End of Year Report, verify that the crosswalk agrees with the accounting ledgers in total and trace a sample of expenditures from the crosswalk to the accounting ledgers.

City of Gloucester, Massachusetts
Summary of Procedures and Findings
June 30, 2009
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Results

The amounts reported for the general fund were materially correct.

Procedure 2

Trace the amounts reported for a sample of the Department of Elementary and Secondary Education's:

- a) functions (i.e. Teaching, Principal),
- b) state objects (i.e. Professional Salaries (01), Other Salaries (02), Expenditures (04-06),
- c) programs (i.e. Regular Day, Special Education, etc.),
in Schedule 1 to the detail in the accounting ledgers or to the crosswalk, if applicable.

These amounts should agree.

Results

The amounts reported were materially correct.

Procedure 3

Test expenditures for Extraordinary Maintenance (4300). Trace the expenditures to the detail in the accounting ledgers. Verify that:

- a) expenditures do not include salaries,
- b) expenditures include applicable principal portions of a loan or the cost of a lease/purchase agreement,
- c) expenditures do not exceed the per project dollar limit for Extraordinary Maintenance (\$100,000).

Results

Not applicable. No expenditures were reported.

Procedure 4

Determine how expenditures for fringe benefits are assigned or allocated to the Schedule 1. Employee Benefits and Insurance functions (5100, 5200). Trace the reported cost to the detail in the accounting ledgers using the methodology indicated. These amounts should agree.

Results

The amounts reported were materially correct.

City of Gloucester, Massachusetts
Summary of Procedures and Findings
June 30, 2009
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Procedure 5

Verify that expenditures charged to Line 1683 and 2060 – Short-term Interest (5400) related exclusively to Revenue Anticipation Notes.

Results

Not applicable. No expenditures were reported.

Procedure 6

Verify that expenditures charged to Line 1684 and 2065 – Short-term Interest – BAN's (5450) relate exclusively to Bond Anticipation Notes.

Results

The amounts reported agreed to the Treasurer's records.

Procedure 7

Identify expenditures reported as long-term school construction debt in principal (8100) and interest (8200). Verify that bond anticipation notes are not included in these Functions.

- Trace the reported costs to the Treasurer's debt schedule.
 - Trace the reported amounts to the detail in the accounting ledgers.
- These amounts should agree.

Note:

If the District received a lump sum wait list or progress payment from the MSBA, verify that the revenue was reported on line 130 and that expense were reported for pay down of principal (8100), or purchase of land and buildings (7100,7200) if applicable.

Results

The amounts reported agreed to the Treasurer's records. The expenditures were reported in the "Expenditures By City or Town" section.

Procedure 8

Trace the expenditures for tuition payments:

- a) to other school districts in the state (9100),
 - b) to out of state schools (9200),
 - c) to non-public schools (9300),
 - d) to member collaborative (9400),
 - e) to regional school assessment (9500) – by city or town,
- to the detail in the accounting ledgers. These amounts should agree.

Note:

If the District prepaid fiscal year 2010 special education tuition, verify prepaid tuition was not included as an expense of fiscal year 2009. If the District prepaid fiscal year tuition in fiscal year 2008, that amount should be included as an expense of fiscal year 2009.

City of Gloucester, Massachusetts
Summary of Procedures and Findings

June 30, 2009

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Results

Finding 1

All expenditures related to Payments to Other Districts (by school committee) were reported in function 9100. Some of those expenditures related to other functions (i.e. 9300 or 9400).

Procedure 9

For municipal expenditures that result in services directly related to the School Committee:

- a) Obtain a copy of written agreement between the School Committee and Municipal officials documenting the agreed upon methodologies to be used when allocating, distributing, or assigning municipal expenditures to the District.
- b) Test the amounts reported using the document methodology. These amounts should agree.

Results

Findings

1. The agreement between the School Committee and the City stated that per pupil cost would be utilized for administrative costs, but administrative expenditures were not reported.
2. In the past, the City Auditor gathered information from the various City departments for costs related to the school. There has been a transition in the City Auditor's position. As a result, the departmental information was not provided to the school and certain expenditures (i.e. retirement assessment) typically reported as Expenditures by City or Town were not reported.

Procedure 10

Expenditures from federal grants, state grants, and special funds:

- a. determine amounts reported in column 1 by expenditure classification agree with filed final grant expenditure reports for SFSF grant; and
- b. trace amounts claimed as circuit breaker expenses on line 3080 column 6 to the accounting ledgers or journals.

Results

Findings

1. Expenditures (\$26,200) related to the Foundation Reserve (state grant) were not reported.
2. Federal grant expenditures (\$101,230) were reported in column 1 (SFSF Grant) and again in column 2 (Other ESE Administered Grants).

City of Gloucester, Massachusetts
Summary of Procedures and Findings
June 30, 2009
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Schedule 3

Procedure 1

- a) Trace the amounts reported by school location on the linked file to the accounting ledgers. These amounts should agree.
- b) If staff is assigned to more than one school, determine if the school maintains a payroll system or spreadsheet to document the assignment of staff salaries by school location.
- c) If allocations are used to assign salaries to schools, programs, functions, or objects, was the allocation supported by a documented methodology?
- d) If allocations are used for non-salary expenditures, determine if the District maintains a documented methodology for consistency in application. Allocations are acceptable on Schedule 3 for non-salary expenditures although direct assignment or charging is preferable.

Results

The amounts reported were materially correct.

Schedule 4

Procedure 1

Ascertain the methodology used to allocate, distribute or assign SPED costs to prototype on Schedule 4. Test amounts reported on Schedule 4 using this methodology. These amounts should agree.

Results

Findings

1. The Instructional Services expenditures reported on line 3860 of Schedule 4 were less (\$6,089,587) than the Special Education expenditures reported on line 3599 of Schedule 3.
2. Expenditures related to the SFSF federal grant were reported on line 3900 column 4 (\$197,741) and on line 3910 column 2 (\$296,988) instead of line 3930.
3. Expenditures from Grants and Revolving Funds (not including Circuit Breaker) were not reported on line 3930.

Schedule 7

Procedure 1

Trace the transportation expenditures reported on Schedule 7 to the transportation expenditures reported on Schedule 1. These amounts should agree.

Determine the methodology used to allocate transportation expenditures on Schedule 7 and verify the accuracy of these allocations. Also, if applicable, verify that the reimbursable expenditures have been reduced by transportation revenue received from students transported.

City of Gloucester, Massachusetts
Summary of Procedures and Findings
June 30, 2009
(Continued from Page 9)

Results

Finding 1

The transportation expenditures reported in Schedule 7 were \$373,130 less than the expenditures reported in Schedule 1.

Finding 2

The backup documentation to support the students transported more than/less than 1 ½ miles was not available. As a result, we could not test a sample of the students to verify the accuracy of the student counts reported in Schedule 7. The reimbursable expenditures reported on line 4000 (Within the District) were \$18,376 more than (non-reimbursable \$18,376 less than) the calculated amount based on the percentage of students reported more than/less than 1 ½ miles.

Procedure 2

Trace the transportation expenditures reported on Schedule 7 to the detailed transportation records and verify that the amounts reported on Schedule 7 are accurate and consistent with the detailed records.

Results

Finding 1

The Transportation expenditures reported in Schedule 1 agree with the school accounting ledgers. However, the expenditures reported in Schedule 7 were \$373,130 less than the expenditures reported in Schedule 1.

Procedure 3

Determine if the District's accounting system separates costs in order to facilitate reporting as outlined in Schedule 7 (in or out of district, pre-school, non-public, school choice and charter school).

Results

The District's accounting system separates costs for non-public, but not for in or out of district or for pre-school, school choice and charter school.

Schedule 19

Procedure 1

Determine if the School District has reported all changes to Schedule 19, Part A.1 – "Appropriation by School Committee" to the Department of Elementary and Secondary Education. Compare the final School Committee appropriations to the Schedule 19, Part A.1 file/amended to determine if all changes were reported.

Results

The amount reported was materially correct

Subject: Fw[2]: Re: Budget & Finance Committee Agenda Amendment for 2/3/11

From: Joe Connelly <jconnelly@gloucester.k12.ma.us>

Date: Tue, 01 Feb 2011 15:40:15 -0500

I realize this mtg. has been rescheduled for 2/17 but a few days ago I believe you asked me to resend my email. I hope this is what you were looking for. oe Connelly

-----Original Message-----

From: "Joe Connelly" <jconnelly@gloucester.k12.ma.us>

To: "Martha-Jo Fleming" <mfleming@gloucester.k12.ma.us>, tmarkham@gloucester.k12.ma.us

Date: 01/27/11 03:52 PM

Subject: Fw: Re: Budget & Finance Committee Agenda Amendment for 2/3/11

FYI, I will let you know if our attendance at their mtg. is still needed. I hope I summarized our December report accurately.

Joe Connelly

-----Original Message-----

From: "Joe Connelly" <jconnelly@gloucester.k12.ma.us>

Cc: "jackie hardy" <jackieahardy@verizon.net>, "Paul McGeary" <pmcgeary@gmail.com>, "Kenny Costa" <kcosta@gloucester-ma.gov>, "Jeff Towne" <jtowne@gloucester-ma.gov>, tmarkham@gloucester.k12.ma.us, mfleming@gloucester.k12.ma.us, vgilman@gloucester.k12.ma.us, "Jim Duggan" <jduggan@gloucester-ma.gov>

Date: 01/27/11 03:48 PM

Subject: Re: Budget & Finance Committee Agenda Amendment for 2/3/11

To B+F Committee (City Council),

At the School Committee B+F mtg. held on 1/26 and the School Committee Mtg. held on 1/26 it was reported by Tom Markhem and Food Service Director, Martha-Jo Fleming, that the \$72,108 lunch program deficit for the month of December which produced a year to date positive balance of \$38,388 was caused in part by the following factors:

- 1.The month of December only had 15 school days therefore reducing the sales revenue.
- 2.The month of December had three (3) pay periods causing the monthly payroll to be artificially high.
- 3.The month of December food costs appeared high due to the fact we have a bi-monthly cycle for purchasing food and other supplies which actually cover a 2 month period. It is expected food cost for January will be lower. See prior months spending pattern.
4. They did identify some concerns that are impacting our profit/loss statement. These concerns dealt with some delinquent family payments ,sickness of staff resulting in the need for long-term sub coverage and one partnership that is not producing hoped for fiscal results.Corrective action for all of these concerns are in place and being aggressively addressed.
5. It is expected the month of January with 20 school days and only two(2) pay periods will prove to be a positive month.
6. It was emphasized having this monthly financial report in place enables us to tract the lunch program operation very closely and to be in a position to alert the School Committee and other City officials if and when a fiscal concern develops.
7. At this time, we are still projecting a small year-end profit, which is the goal of the school- lunch program. Per our earlier discussions, currently it is our goal to operate a self-supporting food service operation covering all operational salary

and non-salary costs, except kitchen help health insurance costs which are in the school department operational budget.

If you still feel a need for me, Tom and our Food Service Director to attend the City Council B+F mtg. on Feb. 3rd at 6:00pm please let me know. Thanks
Joe Connelly

-----Original Message-----

To: jconnelly@gloucester.k12.ma.us

Cc: "jackie hardy" <jackieahardy@verizon.net>, "Paul McGeary" <pmcgeary@gmail.com>, "Kenny Costa" <kcosta@gloucester-ma.gov>, "Jeff Towne" <jtowne@gloucester-ma.gov>, tmarkham@gloucester.k12.ma.us, mflaming@gloucester.k12.ma.us, vgilman@gloucester.k12.ma.us, "Jim Duggan" <jduggan@gloucester-ma.gov>

Date: 01/27/11 02:29 PM

Subject: Budget & Finance Committee Agenda Amendment for 2/3/11

Superintendent Connelly: Please be advised that tomorrow morning the Budget & Finance Committee agenda for Thursday, February 3, 2011 will be amended to add "Food Services Deficit Discussion" and be re-posted. Councilor Curcuru, Chair of the B&F Committee would appreciate you, Mr. Markham, School Department CFO, and Ms. Fleming, the Food Services Director join the Committee for that discussion.

If you should have any questions, please feel free to contact Councilor Curcuru directly. The B&F Committee meets in the first floor Council Conference Room beginning at 6 p.m. Thank you.

Dana C. Jorgensson
Clerk of Committees
from Off Site

PLEASE REPLY TO: djorgensson@gloucester-ma.gov