

TOWN OF BLANDFORD, MASSACHUSETTS

Independent Auditors' Reports Pursuant
to Governmental Auditing Standards
and The Single Audit Act Amendments of 1996

For the Year Ended June 30, 2007

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Selectmen
Town of Blandford, Massachusetts

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Blandford, Massachusetts, as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements and have issued our report thereon dated March 16, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likeli-

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hood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 07-1, 07-2, 07-3 and 07-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-1, 07-2 and 07-4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 07-5 and 07-6.

We noted certain matters that we reported to management of the Town in a separate letter dated March 16, 2009.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Selectmen, others within the entity, and 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.

Melanson Heath & Company, P.C.

Greenfield, Massachusetts
March 16, 2009



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Selectmen
Town of Blandford, Massachusetts

Compliance

We have audited the compliance of the Town of Blandford, Massachusetts, 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, 2007. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

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 Town'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 of the Town's compliance with those requirements.

As described in items 07-7, 07-8 and 07-9 in the accompanying schedule of findings and questioned costs, the Town did not comply with requirements regarding allowable costs/costs principle and equipment and real property management applicable to its Community Facilities Loans and Grants program. Compliance with such requirements is necessary, in our opinion, for the Town to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Town complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs of the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A *control deficiency* in a Town's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 07-7 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Town's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditure of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Blandford as of and for the year ended June 30, 2007, and have issued our report thereon dated March 16, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying schedule of expenditures of federal

awards 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.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Selectmen, others within the entity, and 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.

Melanson Heath & Company, P.C.

Greenfield, Massachusetts
March 16, 2009

TOWN OF BLANDFORD, MASSACHUSETTS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2007

<u>Federal Grantor/ Pass-Through Grantor/ Program Name</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Community Facilities Loans and Grants	10.766	\$ <u>1,902,989</u>
Total All Programs		\$ <u><u>1,902,989</u></u>

This schedule has been prepared on the modified accrual basis of accounting.
State identifying numbers were not available for the pass-through grants listed above.
See Independent Auditors' Report on Compliance with OMB A-133.

TOWN OF BLANDFORD, MASSACHUSETTS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *adverse*

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes none reported

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for major programs: Qualified opinion for the major program for activities allowed, allowable costs and cost principles, equipment and real property management, and procurement.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

07-1 CONSIDER IMPLEMENTING INTERNAL CONTROL IMPROVEMENTS (MATERIAL WEAKNESS)

In accordance with a new generally accepted audit standard (SAS 112), which is effective for all fiscal year 2007 audits, independent auditors must now report issues (called "significant deficiencies") to the governing body. The definition of this term is included in the opening letter to this management letter.

SAS 112 specifically requires that certain situations, if present in the municipality, must be reported as a significant deficiency. Although these conditions may not be new to the municipality, and may be very common practices for Massachusetts municipalities, they must now be reported in the management letter. The governing body of the Town should evaluate the cost/benefit of these issues to determine whether corrective action is warranted.

The following summarizes certain of the current and past practices in the Town that meet the new criteria of significant deficiencies:

Establish Internal Controls over the Preparation of Audited Financial Statements:

Although the Town maintains its accounting records in accordance with standards established by the State statutes, and is able to prepare reports for internal and State purposes, historically, the annual financial statements have been drafted by the independent auditor. Because the Town must take full responsibility for the accuracy and disclosure of the financial statements, it must, either internally, or through the use of a qualified outside party (other than the independent auditor), review the financial statements and related footnote disclosures, to assure compliance with generally accepted accounting principles, and to verify that no material misstatements exist. Relying on the independent auditor to perform these functions is considered a control deficiency.

Corrective Action to be Considered:

The Town should either provide additional staff training in the area of preparing financial statement prepared under the GASB 34 reporting model or the retention of a service provider to prepare, assist in the preparation or reviewing the statements to ensure material misstatements are not present.

Document Components of Internal Control:

In order to establish an effective system of internal controls, the Town should document the policies, procedures and controls over key financial transactions, including cash, tax/excise/utility receivable activity, departmental receipts, purchasing, vendor disbursements, employee benefit/ payroll disbursements, and general ledger maintenance. This documentation could be used by departments as guidance to help safeguard assets, properly record transactions, and provide a basis for continuing operations when turnover occurs in key financial departments. Although the Town maintains certain policies and procedures, they are not complete, or distributed to all applicable departmental personnel.

Corrective Action to be Considered:

Several years ago, the Committee of Sponsoring Organizations (COSO) of the President's Council on Integrity and Efficiency published comprehensive internal control guidance that has recently been put in place by publicly traded companies as a result of Sarbanes Oxley legislation. The COSO report outlines five components of effective internal control: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring. The Town should consider implementing a written internal control framework using the COSO model.

Establish Internal Audit Function:

Massachusetts General Laws provide powers and duties to the Town Accountant to perform internal audit functions, including examining the books and records of all departments

responsible for receiving and expending funds, and proving all cash balances at least annually. Internal audits are an important control measure to provide some assurance that procedures are actually being performed in accordance with management's assertions, and that assets actually exist and are properly safeguarded. The Town historically has relied on the independent auditor to perform these functions. This reliance, however, increases the risk that errors or irregularities could occur and not be tested or detected by management.

Corrective Action to be Considered:

The Town should consider, as part of its documented internal control procedures, establishing an internal audit function to properly monitor operations and assess risk of misstatement of the financial statement caused by either errors or irregularities.

07-2 IMPLEMENT RECONCILIATION PROCEDURES FOR KEY GENERAL LEDGER ACCOUNTS (MATERIAL WEAKNESS)

Our inquiries found that accounts receivable are not reconciled on a regular (monthly/quarterly) basis.

Reconciliation of general ledger balances to supporting documentation and adjustments of activity and records is integral in ensuring the accuracy of the Town's accounting records.

During our testing we noted that real estate, personal property, motor vehicle excise, and water receivables as reported in the general ledger were at variance with the Collector's detail although the variances were not considered to be material.

Lack of an adequate reconciliation process minimizes the benefit gained by segregating duties and greatly increases the risk that errors or irregularities could occur and go undetected. It may also delay the Town's ability to certify the year-end "free cash" balance since Department of Revenue directives require a receivable reconciliation at year end as part of the certification process.

We recommend the Town establish formal procedures to reconcile key general ledger accounts on a monthly basis. This will provide additional assurance that accurate information is provided to Town management and will reduce the likelihood that errors or irregularities could occur and go undetected and assure that free cash certifications can be completed in a timely manner. This will also reduce the effort required to close the books at year end.

07-3 IMPROVE CONTROLS OVER TAX PAYMENTS AND OTHER COLLECTIONS (SIGNIFICANT DEFICIENCY)

During our audit and as noted in prior years, we observed tax and other payments collected in Town Hall by personnel other than the Town Collector. Additionally, our inquiries revealed that payments intended for the Town Collector are often deposited in the Town's mailbox located at the front of the Town Offices and that individuals other than the Town Collector have a key for this mailbox. These practices result in inadequate internal controls over the Town's receipts in regard to tax and other payments intended for the Town Collector, as individuals who may receive payments are not appropriately bonded. Additionally, this situation can create an inadequate segregation of duties, depending on who actually collects these receipts.

We recommend the Town prohibit employees other than the Town Collector, from receiving tax and other payments. Implementation of this recommendation will improve security over Town receipts as well as ensure an adequate segregation of duties.

07-4 IMPROVE CONTROLS OVER DISBURSEMENTS (MATERIAL WEAKNESS)

During our detailed testing of internal controls over disbursements, we noted one instance where the vendor invoice and cancelled check could not be located.

Proper documentation procedures are an integral part of a good system of internal controls and provide assurance that the Town's expenditures are legitimate and accurate. We recommend the Town improve controls over disbursements by requiring original invoices or receipts that clearly identify what is being purchased.

07-5 IMPROVE RECORD KEEPING – ASSESSORS' OFFICE (COMPLIANCE FINDING)

During audit fieldwork, the Assessors were unable to provide a copy of a personal property abatement application form selected for testing.

As custodian of Town records, the Assessors must safely store and retain original records. A municipal record disposition schedule for Assessors (available from the Archives Division – Records Management Section of the Office of the Secretary of State) details retention requirements for each type of document originating in the Assessor's office.

We recommend the Assessors' Office, as originators of abatement documentation, establish procedures to ensure that all original documentation is retained, properly approved and locatable.

07-6 IMPROVE PROCEDURES TO ENSURE COMPLIANCE WITH PROCUREMENT ACT (COMPLIANCE FINDING)

Massachusetts General Laws Chapter 30B requires that purchases of \$ 5,000 to \$ 25,000 be supported by documentation that quotes were obtained by at least three vendors and that expenditures of \$ 25,000 or more be subject to a formal bidding process. In testing for compliance with MGL Chapter 30B, we noted several instances of non-compliance including:

- Gravel and stone was purchased for road repairs during the April 2006 flood. The Town contends this was an emergency procurement but could not provide any documentation to support this contention. Documentation evidencing an emergency procurement required under MGL Ch. 30B must include a documentation of the basis for determining an emergency exists. Additionally, an emergency procurement must be reported to the "Goods and Services Bulletin" for publication.
- The Town could not provide evidence of obtaining written quotes on the cleaning of oil/water separator repairs of approximately \$ 7,200.
- The Town purchased water meter equipment exceeding the threshold requiring compliance with Chapter 30B, however, the Town could not supply evidence of compliance. The Town contends these purchases were from sole source vendors but written determination evidencing this contention could not be provided.

In order to avoid these situations in the future, we recommend the Town's Chief Procurement Officer maintain all bid and quote files for the legally required amount of time. Additionally, as a method of checks and balances, we recommend that all bills submitted to the Town Accountant for payment contain a certification that all applicable bid requirements have been met in accordance with Massachusetts General Laws. Implementation of these recommendations will ensure that the appropriate bid procedures have been followed and that supporting documentation is properly retained and accessible.

We also recommend the Town comply with the documentation requirements involved in declaring a procurement an "emergency procurement" and sole source.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Cost</u>
07-7	Community Facilities Loan and Grants (10.766)	<p><u>IMPROVE PROCEDURES TO ENSURE COMPLIANCE WITH PROCUREMENT ACT (COMPLIANCE FINDING/ SIGNIFICANT DEFICIENCY)</u></p> <p>Massachusetts General Laws Chapter 30B requires that purchases of \$ 5,000 to \$ 25,000 be supported by documentation that quotes were obtained by at least three vendors and that expenditures of \$ 25,000 or more be subject to a formal bidding process. In testing for compliance with MGL Chapter 30B, we noted an instance of non-compliance including:</p> <p>The Town purchased water meter equipment exceeding the threshold requiring compliance with Chapter 30B, however, the Town could not supply evidence of compliance. The Town contends these purchases were from sole source vendors but written determination evidencing this contention could not be provided.</p> <p>In order to avoid this situation in the future, we recommend the Town's Chief Procurement Officer maintain all bid and quote files for the legally required amount of time. Additionally, as a method of checks and balances, we recommend that all bills submitted to the Town Accountant for payment contain a certification that all applicable bid requirements have been met in accordance with Massachusetts General Laws. Implementation of these recommendations will ensure that the appropriate bid procedures have been followed and that supporting documentation is properly retained and accessible.</p> <p>We also recommend the Town comply with the documentation requirements involved in declaring a procurement a sole source.</p> <p><u>Town's Response:</u> The Water Commission bought water meters that totaled over \$ 25,000 and should have bid the purchase out and complied with Chapter 30B. All Town agencies, especially the Water Commission will now operate compliant.</p>	\$ 25,990
07-8	Community Facilities Loan and Grants (10.766)	<p><u>ENSURE GRANT EXPENDITURES ARE ALLOWABLE (COMPLIANCE FINDING)</u></p> <p>The Town is currently undergoing a significant water system improvement project federally funded through the Rural Development Authority (RDA) and administered for the Town by an independent engineering firm. According to Town officials, some of the bids for the project came in lower than anticipated and resulted in funds being available for "re-programming". The funds were reprogrammed for the purpose of mapping the Town's water lines and identifying the current users and potential users of water. According to the independent engineering firm and Town officials, the "re-programming" of funds received the approval of the RDA; however, no documentation of this approval could be provided and we were unable to confirm the approval</p>	\$ 39,462

with the funding source. We also were unable to obtain a written project scope amendment from the engineering firm or other documentation to describe the scope of the task to be performed.

The Water Commissioners wanted to use Town employees to complete the mapping project since they would already have access to the necessary documentation as well as familiarity with the Town. According to Town officials, the RDA informed the Town the funds could not be used to pay Town employees. The engineering firm then agreed to hire two Town employees to perform the task and charge them to the project as the firm's employees. According to the engineering firm, the oversight and monitoring of the mapping project remained the responsibility of the Water Commissioners.

A total of 1,578.50 hours were charged to the mapping project. The maps produced by one of the employees cannot currently be located. The maps produced by the second employee were not, in the estimation of the Town, sufficient to justify the 1,279.50 hours the employee charged to the project. As a result, we have questioned the costs (\$ 39,462.50) related to the charges for the mapping project.

We recommend the Town comply with grant regulations by ensuring grant expenditures are allowable and are a reasonable and efficient use of resources.

Town's Response:

The Water Commission should have supervised the mapping project within the regulations and guidelines of the state. We intend to fully accept all your recommendations and the Town of Blandford will maintain compliance from now on.

07-9 Community
Facilities Loan
and Grants
(10.766)

COMPLY WITH EQUIPMENT MANAGEMENT REQUIREMENTS (COMPLIANCE FINDING)

N/A

Federal regulations require equipment and property acquired under Federal awards to be tracked through the maintenance of inventory lists which identify the items, including: a description, serial/identifying number, source, acquisition date, cost, who holds the title, and percentage of Federal participation in the equipment or asset. The regulations further require periodic physical inventories of Federally-funded equipment and property, as well as the maintenance of details on disposals. Although the Town has installed several water meters and performed material capital improvements on the water mains that were funded through the Rural Development Authority (RDA) loan/grant program, the Town has not complied with the documented equipment management regulations.

We recommend the Town comply with the equipment management requirements through the establishment of detailed lists of Federally-funded equipment and property. We further recommend the Town periodically inventory the equipment and maintain details of any disposals as they occur.

Town's Response:

The entire town has started to track all equipment into a comprehensive inventory and perform all necessary maintenance, and log all as necessary. These logs will be updated as we acquire additional equipment, and tracked by each department head.

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<u>Prior Year Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>
06-3	Community Facilities Loan and Grants (10.766)	Ensure Grant Expenditures are Allowable (Compliance Finding) <u>Status of Prior Year Finding:</u> Repeated as current year finding 07-8.
06-4	Community Facilities Loan and Grants (10.766)	Obtain Audits Timely (Compliance Finding) <u>Status of Prior Year Finding:</u> Satisfactorily resolved.
06-5	Community Facilities Loan and Grants (10.766)	Comply with Equipment Management Requirements (Compliance Finding) <u>Status of Prior Year Finding:</u> Repeated as current year finding 07-9.