

***TOWN OF NANTUCKET, MASSACHUSETTS***

***REPORTS ON FEDERAL AWARD PROGRAMS***

***FISCAL YEAR ENDED JUNE 30, 2010***

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REPORTS ON FEDERAL AWARD PROGRAMS  
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**TABLE OF CONTENTS**

**Page**

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.....	1
Report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133.....	3
Schedule of expenditures of federal awards .....	5
Notes to schedule of expenditures of federal awards .....	6
Schedule of findings and questioned costs .....	7



**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**

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To the Honorable Board of Selectmen  
Town of Nantucket, 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 Nantucket, Massachusetts, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Town of Nantucket, Massachusetts' basic financial statements and have issued our report thereon dated February 28, 2011. 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 of Nantucket, Massachusetts' 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 of Nantucket, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Nantucket, Massachusetts' internal control over financial reporting.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 internal control that might be deficiencies, significant deficiencies or material weaknesses. However, we consider the significant deficiency described in the accompany schedule of findings and questioned costs as finding 2010-1 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Nantucket, Massachusetts' 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town of Nantucket, Massachusetts in a separate letter dated February 28, 2011. The Town of Nantucket'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 of Nantucket's response and accordingly we express no opinion on it.

This report is intended solely for the information and use of management, the 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.

*Powers & Sullivan*

February 28, 2011, except for the Nantucket Islands Land Bank which is as of September 24, 2010



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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To the Honorable Board of Selectmen  
Town of Nantucket, Massachusetts

## **Compliance**

We have audited the compliance of the Town of Nantucket, Massachusetts, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Town of Nantucket's major federal programs for the fiscal year ended June 30, 2010. The Town of Nantucket, Massachusetts' 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 grants applicable to each of its major federal programs is the responsibility of the Town of Nantucket, Massachusetts' management. Our responsibility is to express an opinion on the Town of Nantucket, Massachusetts' 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 of Nantucket, Massachusetts' 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 Town of Nantucket, Massachusetts' compliance with those requirements.

In our opinion, the Town of Nantucket, Massachusetts, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-3.

## **Internal Control Over Compliance**

Management of the Town of Nantucket, Massachusetts, 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 Town of Nantucket, Massachusetts' 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, 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 of Nantucket, Massachusetts' internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

*A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

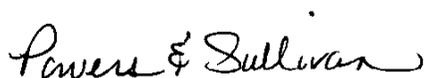
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We identified deficiencies in internal control over compliance that we consider to be material weaknesses, as described in finding 2010-2.

This report is intended solely for the information and use of management of the Town of Nantucket 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.

#### **REPORT ON SCHEDULE OF EXPENDITURES 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 Nantucket, Massachusetts, as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated February 28, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Nantucket, Massachusetts' 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.

This report is intended solely for the information and use of management, the 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.



February 28, 2011, except for the Nantucket Islands Land Bank which is as of September 24, 2010

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through Massachusetts Department of Elementary and</u>		
<u>Secondary Education:</u>		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	\$ 20,290
Cash Assistance:		
School Breakfast Program	10.553	7,044
National School Lunch Program	10.555	39,504
		<u>66,838</u>
TOTAL AGRICULTURE		
U.S. DEPARTMENT OF THE INTERIOR:		
<u>Passed through U.S. Fish and Wildlife Service</u>		
<u>Northeast Region Division:</u>		
Clean Vessel Act	15.616	<u>14,037</u>
U.S. DEPARTMENT OF JUSTICE:		
<u>Direct:</u>		
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program, Recovery Act	16.804	<u>18,598</u>
U.S. DEPARTMENT OF TRANSPORTATION - FEDERAL		
AVIATION ADMINISTRATION:		
<u>Direct:</u>		
Airport Improvement Program	20.106	4,709,003
<u>Passed through Massachusetts Department of Transportation -</u>		
<u>Aeronautics Division:</u>		
Airport Improvement Program	20.106	739,385
U.S. DEPARTMENT OF TRANSPORTATION - FEDERAL		
HIGHWAY ADMINISTRATION:		
<u>Passed through Massachusetts Department of Transportation -</u>		
<u>Highway Division:</u>		
Highway Planning and Construction	20.205	<u>228,205</u>
		<u>5,676,593</u>
TOTAL TRANSPORTATION		
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through Massachusetts Department of Elementary and</u>		
<u>Secondary Education:</u>		
Title I Grants to Local Educational Agencies	84.010	49,302
Special Education Grants to States	84.027	222,713
Improving Teacher Quality State Grants	84.367	25,141
ARRA - Special Education Grants to States, Recovery Act	84.391	155,483
<u>Passed through Massachusetts Department of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	8,509
ARRA - Special Education Preschool Grants, Recovery Act	84.392	<u>6,225</u>
		<u>467,373</u>
TOTAL EDUCATION		
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
<u>Passed through Health Resources and Services Administration:</u>		
National Bioterrorism Hospital Preparedness Program	93.889	<u>2,000</u>
SOCIAL SECURITY ADMINISTRATION:		
<u>Passed through Massachusetts Rehabilitation Commission:</u>		
Social Security Disability Insurance	96.001	<u>50,000</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:		
<u>Direct:</u>		
Airport Law Enforcement Officer Reimbursement Agreement Program	97.090	146,076
ARRA - Port Security Grant Program	97.116	<u>67,119</u>
		<u>213,195</u>
TOTAL HOMELAND SECURITY		
		<u>\$ 6,508,634</u>

See notes to schedule of expenditures of federal awards.

**Note 1 - Definition of Reporting Entity**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Town of Nantucket, Massachusetts. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

**Note 2 - Significant Accounting Policies**

The accounting and reporting policies of the Town of Nantucket, Massachusetts, are set forth below:

- (a) Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. Accordingly, grant revenues are recognized when they are susceptible to accrual and expenditures are recognized when the related liability is incurred.
- (b) Cash Assistance – School Lunch Program - Program expenditures represent federal reimbursement for meals provided during the year.
- (c) Non-Cash Assistance (Commodities) – School Lunch Program – Program expenditures represent the value of donated foods received during the fiscal year.

**Note 3 - Program Clusters**

In accordance with Subpart A §.105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non Profit Organizations*, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
<b>Child Nutrition Cluster</b>	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
<b>Special Education Cluster</b>	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
ARRA-Special Education Grants to States, Recovery Act	84.391
ARRA-Special Education Preschool Grants, Recovery Act	84.392

**A. Summary of Auditors' Results**

1. The auditors' report expresses a qualified opinion on the basic financial statements of the Town of Nantucket, Massachusetts.
2. Material weaknesses relating to the audit of the basic financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Town of Nantucket, Massachusetts, were disclosed during the audit.
4. Significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements that could have a direct and material effect on each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Town of Nantucket, Massachusetts, expresses an unqualified opinion.
6. There were two audit findings relative to the major federal award programs for the Town of Nantucket.
7. The programs tested as major grants include:

<u>Program Title</u>	<u>CFDA Number</u>
Airport Improvement Program	20.106
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
ARRA-Special Education Grants to States, Recovery Act	84.391
ARRA-Special Education Preschool Grants, Recovery Act	84.392

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Nantucket, Massachusetts was not determined to be a low-risk auditee.

**B. Findings-Financial Statements Audit****2010-1 Material Weaknesses**

*Condition and Criteria:* The following deficiencies exist within the Town's system of internal control:

- Failure to Act on Previously Communicated Weaknesses
  - The Town's audits have reported significant deficiencies in the design and operation of internal controls for several years which have not been resolved.
- Inadequate Design of Internal Control Over Significant Accounts
  - The Town has not accurately reconciled cash between the Treasurers cash book and the bank balances throughout the year.
  - The Town did not accurately record all financial activity on the general ledger during the fiscal year, resulting in 37 late adjustments.
  - The Town Treasurer did not transfer the exact amount of the warrants from the Airport bank accounts to reimburse the Town accounts on a timely basis throughout the year. This resulted in cash being misstated between the Town and Airport bank statements throughout the year requiring significant adjustments subsequent to year end.
  - During fieldwork, the Town provided several supporting schedules that were inaccurate and were adjusted during the audit as errors were identified. A system of controls should be designed to detect and correct errors on a timely basis.
  - The Town does not have a reliable system for monitoring capital borrowing and the associated capital expenditures.

Proper internal controls require that procedures be in place to provide reasonable assurance that 1) assets are properly safeguarded; 2) that transactions are executed in accordance with management's authorization and 3) that transactions are recorded properly in the general and subsidiary ledgers.

*Cause:* Lack of procedures in place to obtain the objectives of a system of internal control as defined above.

*Effect:* The is unable to provide reasonable assurance that assets are properly safeguarded and transactions are executed in accordance with management's authorization and recorded timely and properly in the general and subsidiary ledgers.

*Auditors' Recommendation:* We recommend that the Town implement system to insure that reconciliations are performed and that all transactions are processed in a timely manner.

*Auditee's Response:* Beginning in the 3<sup>rd</sup> Quarter of fiscal year 2011, the Town is implementing procedures to ensure that cash is reconciled between the bank, cashbook and general ledger on a monthly basis and to ensure that transactions are reported accurately and timely on the Town's general ledger.

**C. Findings and Questioned Costs-Major Federal Award Programs Audit**

**2010-2 Material Weakness**

U.S. DEPARTMENT OF TRANSPORTATION		Questioned
		<u>Costs</u>
Highway Planning and Construction	20.205	None

*Condition and Criteria:* The Town has under reported federal expenditures on the Schedule of Expenditures of Federal Awards for the past several years.

*Cause:* The Town does not have procedures for reconciling grant activity recorded in the general ledger with records maintained by Town’s departments and reported to granting agencies.

*Effect:* Indirect costs that have been reported to the granting agency have not been charged to the grant on the general ledger for several years. This has resulted in an excess balance in the general ledger grant account and an underreporting of federal expenditures on the Schedule of Expenditures and Federal Awards. In an effort to reconcile the grant balances on the general ledger to the balance maintained by the planning department as of June 30, 2010, the Town reclassified over \$600,000 in expenditures from the general fund to the Highway Planning and Construction grant.

*Auditors’ Recommendation:* We recommend that Town implement procedures to reconcile all grant activity with the respective departments on a monthly basis.

*Auditee’s Response:* Beginning in the 3<sup>rd</sup> Quarter of Fiscal Year 2011, the Town Accountant will meet with the Transportation Planner on a monthly basis to reconcile the activities associated with the Transportation Grant.

**2010-3**

U.S. DEPARTMENT OF EDUCATION

Special Education Grants to States	84.027	None
Special Education Preschool Grants	84.173	None
ARRA-Special Education Grants to States, Recovery Act	84.391	None
ARRA-Special Education – Preschool Grants, Recovery Act	84.392	None

*Condition and Criteria:* OMB Circular A-87, “Cost Principles for State, Local and Indian Tribal Governments” requires grantees to maintain documentation of employee time and effort that has been charged to federal awards. The District has not maintained such documentation. If 100% of an employee’s salary is charged to a federal award, a grant recipient is required to maintain semi-annual certifications stating that 100% of the employee’s time was spent working on grant activities. If less than 100% of an employee’s salary is charged to a federal award, a grant recipient is required to maintain monthly personnel activity reports documenting 100% of the employee’s time.

*Cause:* The District did not maintain semi-annual certifications or personnel activity reports for employee salaries charged to the SPED Grants.

*Effect:* The District is not in compliance with the grant requirements.

*Auditors' Recommendation:* We recommend that the District implement procedures to comply with OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments".

*Auditee's Response:* The School Department has compiled a corrective action plan to address this finding.

#### **D. Prior Year Audit Findings and Questioned Costs**

##### **2009-1 Material Weaknesses**

*Condition and Criteria:* In fiscal year 2009, the following deficiencies existed within the Town's system of internal control:

- Failure to Act on Previously Communicated Weaknesses
- The Treasurer's cash book was not accurately reconciled to the bank balances throughout the year.
- Although the activity in the general ledger was reconciled to the Treasurer's cashbook throughout the fiscal year, a consistent variance of approximately \$36,000 was not identified until several months after year end.
- The Town has not performed reconciliations between the balances of individual enterprise funds accounts on the general ledger and the supporting bank balances. Variances identified six months after the end of the fiscal year required material adjustments.

Proper internal controls require that procedures be in place to provide reasonable assurance that 1) assets are properly safeguarded; 2) that transactions are executed in accordance with management's authorization and 3) that transactions are recorded properly in the general and subsidiary ledgers.

*Cause:* Lack of procedures in place to obtain the objectives of a system of internal control as defined above.

*Effect:* The Town was unable to provide reasonable assurance that assets are properly safeguarded and transactions are executed in accordance with management's authorization and recorded timely and properly in the general and subsidiary ledgers.

*Current Status:* During fiscal year 2010 the Town was unable to completely reconcile cash activity from the cash book to the bank and has not implemented a system of internal control to insure that all transactions are properly recorded in a timely manner. Please refer to finding 2010-1 for additional current information.