

***TOWN OF NANTUCKET, MASSACHUSETTS***

***REPORTS ON FEDERAL AWARD PROGRAMS***

***FISCAL YEAR ENDED JUNE 30, 2011***

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REPORTS ON FEDERAL AWARD PROGRAMS  
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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**

100 Quannapowitt Parkway  
Suite 101  
Wakefield, MA 01880  
T. 781-914-1700  
F. 781-914-1701  
[www.powersandsullivan.com](http://www.powersandsullivan.com)

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, 2011, which collectively comprise the Town of Nantucket, Massachusetts' basic financial statements and have issued our report thereon dated February 21, 2012. 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

*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. We consider the significant deficiencies described in the accompanying schedule of findings and questioned costs as findings 2011-1 and 2011-2 to be material weaknesses.

## 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*. That finding is described in the accompanying Schedule of Findings and Questioned Costs as finding 2011-2.

We noted certain other matters that we reported to management of the Town of Nantucket, Massachusetts in a separate letter dated February 21, 2012.

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

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 LLC*

February 21, 2012, except for the Nantucket Islands Land Bank which is as of September 27, 2011



100 Quannapowitt Parkway  
Suite 101  
Wakefield, MA 01880  
T. 781-914-1700  
F. 781-914-1701  
[www.powersandsullivan.com](http://www.powersandsullivan.com)

**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**

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, 2011. 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.

As described in item 2011-2 in the accompanying Schedule of Findings and Questioned Costs, the Town of Nantucket's Memorial Airport did not comply with requirements pertaining to procurement laws. Compliance with such requirements is necessary, in our opinion, for the Town of Nantucket to comply with the requirements applicable to that program.

In our opinion, except for the item identified as finding 2011-2, 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, 2011. Additionally, the results of our auditing procedures 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 the accompanying schedule of findings and questioned costs as item 2011-3 and 2011-4.

## **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.

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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-2 to be material weaknesses.

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

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, 2011, and have issued our report thereon dated February 21, 2012. 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.

*Powers & Sullivan LLC*

February 21, 2012, except for the Nantucket Islands Land Bank which is as of September 27, 2011

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<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 Secondary Education:</u>		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	\$ 19,178
Cash Assistance:		
School Breakfast Program	10.553	4,090
National School Lunch Program	10.555	49,848
		<u>73,116</u>
TOTAL AGRICULTURE		
U.S. DEPARTMENT OF THE INTERIOR:		
<u>Passed through Massachusetts Department of Fish and Game:</u>		
Clean Vessel Act	15.616	<u>13,220</u>
U.S. DEPARTMENT OF JUSTICE:		
<u>Direct:</u>		
Public Safety Partnership and Community Policing Grants	16.710	102,852
<u>Passed through Massachusetts Executive Office of Public Safety and Homeland Security:</u>		
Enforcing Underage Drinking Laws Program	16.727	<u>4,496</u>
		<u>107,348</u>
TOTAL CRIMINAL JUSTICE		
U.S. DEPARTMENT OF TRANSPORTATION - FEDERAL AVIATION ADMINISTRATION:		
<u>Direct:</u>		
Airport Improvement Program	20.106	33,072
<u>Passed through Massachusetts Department of Transportation - Aeronautics Division:</u>		
Airport Improvement Program	20.106	2,231,536
U.S. DEPARTMENT OF TRANSPORTATION - FEDERAL HIGHWAY ADMINISTRATION:		
<u>Passed through Massachusetts Department of Transportation - Highway Division:</u>		
Highway Planning and Construction	20.205	209,178
		<u>2,473,786</u>
TOTAL TRANSPORTATION		
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through Massachusetts Department of Elementary and Secondary Education:</u>		
Title I Grants to Local Educational Agencies		
	84.010	84,740
Special Education Grants to States	84.027	253,055
Safe and Drug Free Schools	84.186	81
Improving Teacher Quality State Grants	84.367	25,141
ARRA - Special Education Grants to States, Recovery Act	84.391	153,923
ARRA - State Fiscal Stabilization Fund, Recovery Act	84.394	7,124
Education Jobs Fund	84.410	97,327
<u>Passed through Massachusetts Department of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	8,529
ARRA - Special Education Preschool Grants, Recovery Act	84.392	<u>6,225</u>
		<u>636,145</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>2,500</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:		
<u>Direct:</u>		
Airport Law Enforcement Officer Reimbursement Agreement Program	97.090	121,352
ARRA - Port Security Grant Program	97.116	125,193
<u>Passed through Massachusetts Federal Emergency Management Agency:</u>		
Hazard Mitigation Grant	97.039	<u>4,657</u>
		<u>251,202</u>
TOTAL HOMELAND SECURITY		
		<u>\$ 3,557,317</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>Highway Planning and Construction Cluster</b>	
Highway Planning and Construction	20.205
Recreational Trails Program	20.219
Surface Transportation Infrastructure-Discretionary Grants for Capital Investments II	20.933
Appalachian Development Highway System	23.003

**Title I, Part A Cluster**

Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010
ARRA-Title I Grants to Local Educational Agencies, Recovery Act	84.389

**Special Education Cluster**

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

**State Fiscal Stabilization Fund Cluster**

ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act	84.394
ARRA-State Fiscal Stabilization Fund (SFSF)-Government Services, Recovery Act	84.397

**A. Summary of Auditors' Results**

1. The auditors' report expresses an unqualified 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. One instance of noncompliance material to the financial statements of the Town of Nantucket, Massachusetts, was 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 a qualified opinion.
6. There were three 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****2011-1 Material Weaknesses**

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

- Inadequate Design of Internal Control Over Significant Accounts
  - The Town's system of controls to verify that the cash balances in the enterprise fund bank accounts were accurate failed to detect significant variances until after the end of the fiscal year which required material adjustments.
  - The Town does not have a reliable system for monitoring capital borrowing and the associated capital expenditures.
  - The Town has not implemented formal reconciliation processes with several Town departments. Communication between the Town and Town departments is essential to the monthly reconciliation process and to provide assurance that revenues and expenditures have been properly reported.
  - The Nantucket Memorial Airport has constructed a number of capital projects which were authorized to be funded partially through state and federal grants and partially through long-term borrowing. Since grant revenue was not monitored on a project basis, the final Airport portion of each project was not calculated and was not borrowed.
  
- Failure to Comply with Procurement Laws and Regulations
  - The Town has not enforced procurement laws to ensure that Town departments are going through the proper channels when requesting bids, obtaining quotes, and entering into contracts before projects commence.

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 is unable to provide reasonable assurance that capital borrowing is properly monitored, 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 a system to insure that all account reconciliations are performed timely and that procurement laws are followed.

*Auditee's Response:*

- During fiscal 2012, the Town is implementing procedures to ensure that transactions are reported accurately and timely on the Town's general ledger.
- Regarding capital borrowing, during fiscal 2012 the Town's Finance Department with assistance from an independent financial consultant re-created all Nantucket Airport capital project activity dating back to 2005 and in the 3<sup>rd</sup> Quarter of fiscal year 2012, the Town plans to adopt and distribute to all Town Departments a "Post Issuance Tax Compliance Procedure for Tax Exempt Obligations and Other Tax Benefited Obligations".
- The Chief Procurement Officer and Finance Department are working collectively to mitigate disbursements to vendors without verification that the proper procurement process has taken place.

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

**2011-2 Material Weakness**

U.S. DEPARTMENT OF TRANSPORTATION – FEDERAL AVIATION ADMINISTRATION

		<u>Questioned Costs</u>
Airport Improvement Program	20.106	Unknown

*Condition and Criteria:* OMB Circular A-110 states, “All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition”. The Nantucket Memorial Airport has not followed the proper procurement procedures to provide open and free competition. Various Airport projects commenced without obtaining the required bids or quotes and in some instances not entering into signed contracts.

*Cause:* Lack of procedures in place to ensure proper procurement laws were followed.

*Effect:* The Town is not in compliance with the requirements of OMB Circular A-110.

*Auditors’ Recommendation:* We recommend that the Town implement procedures to comply with OMB Circular A-110 by improving controls to ensure that procurement laws are followed.

*Auditee’s Response:* During Fiscal Year 2012, the Chief Procurement Officer and Finance Department are working collectively to mitigate, to the extent possible, disbursements to vendors without proper procurement process taking place. Additional controls have been put into place. These controls include a centralized procurement process which no longer gives departments the ability to enter invoices into the Towns’ invoice processing system without a Town issued purchase order number. In addition, in January of 2012, the Chief Procurement Officers provided a mandatory training for all departmental staff that was conducted by the Inspector General and Attorney General’s office of the State of Massachusetts.

**2011-3**

U.S. DEPARTMENT OF EDUCATION

		<u>Questioned Costs</u>
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. 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. One employee, who was only paid partially from the grant in fiscal year 2011,

completed semi annual certification to document the time spent on the grant rather than monthly personnel activity reports as required by OMB Circular A-87.

*Cause:* The District did not maintain monthly personnel activity reports for employees partially paid from the grant.

*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 completed a corrective action plan to address this finding.

**2011-4**

U.S. DEPARTMENT OF EDUCATION

Questioned  
Costs

Special Education Grants to States	84.027	None
Special Education Preschool Grants	84.173	None

*Condition and Criteria:* Form FR-1 (Final Financial Report) for the Special Education Grants to States and Special Education Preschool Grants was due October 31, 2010. The final reports for each of these grants were submitted in March of 2011 after the deadline. No extensions were to permit the reports to be late.

*Cause:* lack of procedures in place to file final reports timely.

*Effect:* The Town is not in compliance with grants requirements.

*Auditors' Recommendation:* We recommend the Town implement procedures to insure compliance with all grant reporting requirements to ensure the timely filing of the final financial reports.

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

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

**2010-1 Material Weaknesses**

Condition and Criteria: In fiscal year 2010, the following deficiencies existed 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.

*Current Status:* During fiscal 2011 the Town implemented procedures to reconcile the Treasurers cash book to the general ledger and to the bank balances. Also, the Treasurer began to transfer the exact warrant amount related to the Enterprise funds on a timely basis. There are significant deficiencies that continue to exist. Please refer to finding 2011-1 for additional information.

**2010-2**

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.

*Current Status:* As of June 30, 2011 the Town reconciled the highway planning and construction grant with the Planning Department.

**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. 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. The District did not maintain semi-annual certifications or personnel activity reports for employee salaries charged to the SPED Grants as required by OMB Circular A-87.

*Cause:* The District did not maintain semi-annual certifications or personnel activity reports for those employee’s whose payroll was charged to the grant

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

*Current Status:* During fiscal 2011 the School Department was able to provide semi-annual certifications for SPED employees. However, it was noted that an employee completed a semi-annual certification when they should have been submitting monthly time and effort reports. Please refer to finding 2011-3 for additional information.