

**TOWN OF NANTUCKET, MASSACHUSETTS**

SINGLE AUDIT REPORTS

PURSUANT TO

UNIFORM GUIDANCE

JUNE 30, 2016

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### **Report on Internal Control Over Compliance**

Management of the Town of Nantucket, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Nantucket, Massachusetts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Nantucket, Massachusetts, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Nantucket, Massachusetts's basic financial statements. We have issued our report thereon dated October 4, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
October 4, 2016

**TOWN OF NANTUCKET, MASSACHUSETTS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2016**

Federal Grantor / Pass-Through Agency / Program Title	CFDA Number	Pass-Through Number	Passed Through to Subrecipients	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>				
<b>Child Nutrition Cluster</b>				
<i>Passed through the Commonwealth of Massachusetts - Department of Elementary and Secondary Education</i>				
School Breakfast Program	10.553	10-197	\$ -	\$ 5,958
National School Lunch Program:	10.555	10-197		
Cash Assistance			-	146,172
Non-Cash Assistance (Commodities)			-	35,212
			-	187,342
<b>Total Child Nutrition Cluster</b>				
<b><u>U.S. Department of Justice</u></b>				
<i>Direct Award</i>				
Public Safety Partnership and Community Policing Grants	16.710		-	1,716
<b>Total U.S. Department of Justice</b>				
<b><u>U.S. Department of Transportation</u></b>				
<i>Passed through the Commonwealth of Massachusetts - Department of Transportation/Division of Aeronautics</i>				
Airport Improvement Program	20.106	AIP 3-25-0033-063-2015	-	88,629
Airport Improvement Program	20.106	AIP 3-25-0033-062-2015	-	1,857,180
Airport Improvement Program	20.106	130015ACKMAINVI	-	45,396
Airport Improvement Program	20.106	AIP 3-25-0033-060-2014	-	66,202
Airport Improvement Program	20.106	AIP 3-25-0033-057-2013	-	84,990
<b>Highway Planning and Construction Cluster</b>				
<i>Passed through the Commonwealth of Massachusetts - Department of Transportation/Division of Highways</i>				
Highway Planning and Construction	* 20.205	INTF00X02010H0059646	-	234,195
<b>Total Highway Planning and Construction Cluster</b>				
<b>Total U.S. Department of Transportation</b>				
<b><u>U.S. Department of Education</u></b>				
<b>Special Education Cluster (IDEA)</b>				
<i>Passed through the Commonwealth of Massachusetts - Department of Elementary and Secondary Education</i>				
Special Education - Grants to States	84.027	240-030-6-0197-Q	-	221,693
Special Education - Grants to States	84.027	240-039-5-0197-P	-	63,253
Special Education - Grants to States	84.027	274-021-6-0197-Q	-	12,726
Special Education - Preschool Grants	84.173	298-690-6-0197-Q	-	1,750

(Continued)

See notes to Schedule of Expenditures of Federal Awards



**TOWN OF NANTUCKET, MASSACHUSETTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2016**  
**(Continued)**

Federal Grantor/ Pass-Through Agency / Program Title	CFDA Number	Pass-Through Number	Passed Through to Subrecipients	Total Expenditures
<i>Passed through the Commonwealth of Massachusetts - Department of Early Education and Care</i>				
Special Education - Preschool Grants	84.173	26216Nantucket	-	8,575
<b>Total Special Education Cluster (IDEA)</b>			-	307,997
<i>Passed through the Commonwealth of Massachusetts - Department of Elementary and Secondary Education</i>				
Title I Grants to Local Educational Agencies	84.010	305-072386-2016-0197	-	109,168
Title I Grants to Local Educational Agencies	84.010	305-061121-2015-0197	-	48,831
English Language Acquisition Grants	84.365	180-082-6-0197-Q	-	24,130
English Language Acquisition Grants	84.365	180-069-5-0197-P	-	11,791
English Language Acquisition Grants	84.365	184-031-6-0197-Q	-	675
Improving Teacher Quality State Grants	84.367	140-075291-2016-0197	-	19,485
Improving Teacher Quality State Grants	84.367	140-066111-2015-0197	-	1,693
Improving Teacher Quality State Grants	84.367	140-032747-2014-0197	-	205
Race to the Top	84.395	133-048-5-0197-P	-	244
<b>Total U.S. Department of Education</b>			-	524,219
<b><u>U.S. Department of Health &amp; Human Services</u></b>				
<i>Passed Through the Commonwealth of Massachusetts - Executive Office of Health and Human Services/ Department of Public Health</i>				
National Bioterrorism Hospital Preparedness Program	93.889	INTF6207P01W21916410	-	18,764
<b>Total U.S. Department of Health &amp; Human Services</b>			-	18,764
<b><u>U.S. Department of Homeland Security</u></b>				
<i>Direct Award</i>				
Law Enforcement Officer Reimbursement Agreement Program	97.090		-	133,570
<i>Passed through the Commonwealth of Massachusetts- Massachusetts Emergency Management Agency</i>				
Disaster Grants - Public Assistance (Presidentially Declared)	*	97.036	CTFEMA4214NANTU00397	-
Disaster Grants - Public Assistance (Presidentially Declared)	*	97.036	CTFEMA4214NANTU00316	-
Disaster Grants - Public Assistance (Presidentially Declared)	*	97.036	CTFEMA4214NANTU00474	-
Emergency Management Performance Grants		97.042	FY16EMPGI500000NANTU	-
Emergency Management Performance Grants		97.042	FY15EMPGI314000NANTU	-
<b>Total U.S. Department of Homeland Security</b>			-	985,864
<b>Total Federal Financial Assistance Expenditures</b>			\$ -	\$ 4,094,497

\* Denotes Major Program

(Concluded)

See notes to Schedule of Expenditures of Federal Awards

**TOWN OF NANTUCKET, MASSACHUSETTS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2016**

**A. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Town of Nantucket, Massachusetts (the Town) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town.

**B. Summary of Significant Accounting Policies**

Accounting policies and financial reporting practices permitted for municipalities in Massachusetts are prescribed by the Uniform Municipal Accounting System (UMAS) promulgated by the Commonwealth of Massachusetts Department of Revenue.

The accompanying Schedule includes the federal grant transactions of the Town, although some of these programs may be supplemented with state and other revenue, only federal activity is shown. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

**C. Non-Cash Commodities**

The Town receives non-cash commodities from the U.S. Department of Agriculture as a part of the School Lunch program. In fiscal year 2016, \$35,212 was received; however, this amount is not included in the financial statements.

**D. Teacher Pension On-Behalf Payments**

With regards to specific education grants awarded to the Town, the Massachusetts Department of Elementary and Secondary Education and Department of Early Education and Care withhold from the total grant awards 7.2% and 9.0% of the amounts shown on applicable wage budget lines. The Commonwealth utilizes those funds as direct payments to the Massachusetts Teachers Retirement Board made on-behalf of the Town. The amount of these payments from federal grants in fiscal year 2016 was \$10,514.

**TOWN OF NANTUCKET, MASSACHUSETTS  
SCHEDULES OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016**

**A. Summary of Audit Results**

1. The auditor's report expresses an unmodified opinion on the financial statements of the Town of Nantucket.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditor's 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 which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required By the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the Town of Nantucket expresses an unmodified opinion.
6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) in this Schedule.
7. The programs tested as major programs include the Highway Planning and Construction Cluster (CFDA #20.205) and Disaster Grants – Presidentially Declared (CFDA #'s 97.036) grant programs.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Town of Nantucket did qualify as a low risk auditee.

**TOWN OF NANTUCKET, MASSACHUSETTS  
SCHEDULES OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016  
(Continued)**

**B. Schedule of Findings – Financial Statements Audit**

<b><u>Finding</u></b>	<b><u>Questioned Costs</u></b>
<b><u>2016-001. Financial Statements Audit: Significant Deficiency – Closing Process</u></b>	
<p><i>Criteria:</i> The internal controls related to the general ledger closing process should be designed to effectively identify and correct errors in a timely manner.</p> <p><i>Statement of Condition:</i> Despite the Finance Director implementing a quarterly close process during fiscal year 2016, the following errors still occurred at year-end: (1) The Siasconset Water Enterprise Fund and the Sewer Enterprise Fund receivables were overstated by \$614,000; (2) a \$250,000 transfer to the General Fund from sale of real estate was recorded to the Capital Projects Fund in error; (3) indirect cost transfers in the amount of \$376,869 from the various enterprise funds were not made to the General Fund at year-end; (4) a \$1.2 million bond offering was instead recorded as a State grant in the Capital Project Fund; (5) numerous other minor errors not individually significant.</p> <p><i>Cause and Effect:</i> By not completing a timely and accurate general ledger close, errors were not identified and corrected in a timely manner. The cumulative impact of (2) and (3) above would have been to understate free cash by over \$600,000 had these errors not been corrected.</p> <p><i>Recommendation:</i> The Town should review the current closing process and make the changes necessary to promote more efficiency and accuracy to the overall process including the possibility of reassigning some of the tasks to gain more efficiency and in-turn more accuracy.</p>	

**TOWN OF NANTUCKET, MASSACHUSETTS  
SCHEDULES OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016  
(Continued)**

**B. Schedule of Findings – Financial Statements Audit**

<b>Finding</b>	<b>Questioned Costs</b>
<p><b><u>2016-002. Financial Statements Audit: Significant Deficiency – Federal Withholding Process</u></b></p> <p><i>Criteria:</i> The internal controls related to the Federal withholding process should be designed to process transactions timely and accurately.</p> <p><i>Statement of Condition:</i> Due to the amount of the Town’s weekly payroll, the required payment of the Town’s withholdings due to the Internal Revenue Service (IRS) is within 1 day of the processing of the payroll. During the majority of fiscal year 2016 the payments required to be made to the IRS were not made within this required timeframe.</p> <p><i>Cause and Effect:</i> In the past it was the Town’s practice to make payments immediately upon the processing of the payroll so the Town would be in compliance with the regulations. This practice was revised at the end of fiscal 2015 by the payroll office without permission from the Finance Office. This resulted in the assessment of significant penalties which were subsequently abated by the IRS.</p> <p><i>Recommendation:</i> The Town should implement procedures to process Federal withholdings within the appropriate time period.</p>	

**C. Schedule of Findings and Questioned Costs – Major Federal Award Programs Audit**

None

**TOWN OF NANTUCKET, MASSACHUSETTS  
SCHEDULES OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2016  
(Continued)**

**D. Summary Schedule of Prior Year Audit Findings**

**Finding 2015-001 – Significant Deficiency in Internal Control Over Compliance – Child Nutrition Cluster**

Status: The School Department implemented procedures to monitor the timely filing of claims for reimbursements. This finding is deemed to be closed.

**TOWN OF NANTUCKET, MASSACHUSETTS  
CORRECTIVE ACTION PLANS  
YEAR ENDED JUNE 30, 2016**

**Findings – Financial Statements Audit**

**2016-001. Financial Statements Audit: Significant Deficiency – Closing Process**

*Recommendation:* The Town should review the current closing process and make the changes necessary to promote more efficiency and accuracy to the overall process including the possibility of reassigning some of the tasks to gain more efficiency and in-turn more accuracy.

*Corrective Action Planned:* The close process has been reviewed and additional changes have been implemented including reassigning duties and the hiring of additional staff. The review is done on a quarterly basis, however on a weekly basis the trial balance, revenue and expenditure reports are reviewed by the Director of Municipal Finance for anomalies. All journal entries must now be signed off on by the Director of Municipal Finance. The reviews, in conjunction with the reconfiguration of the job duties of some employees should allow the town to complete the close in a more efficient and accurate manner.

*Anticipated Completion Date:* Fiscal year 2017

*Contact:* Brian E. Turbitt, Director of Municipal Finance

**2016-002. Financial Statements Audit: Significant Deficiency – Federal Withholding Process**

*Recommendation:* The Town should implement procedures to process Federal withholdings within the appropriate time period.

*Corrective Action Planned:* The Director of Municipal Finance upon learning of the payroll tax deposit issue with the Internal Revenue Service (IRS) immediately implemented the following process. Deposits are to be made immediately after the payroll has been transmitted and funded, this must happen by the Wednesday before the Thursday check date. Upon submission of the tax deposit, a printout of the confirmation number is to be printed and attached to the deposit documentation. By the Tuesday of the following week, the payroll administrator or the treasurer must contact the IRS and confirm that the deposit was received by the Friday deadline. Since this process was implemented there have been no further issues as they relate to this finding.

*Anticipated Completion Date:* Fiscal year 2017

*Contact:* Brian E. Turbitt, Director of Municipal Finance