

TOWN OF NANTUCKET, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2012

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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	6
Notes to schedule of expenditures of federal awards	7
Schedule of findings and questioned costs	8



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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 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, 2012, which collectively comprise the Town of Nantucket, Massachusetts' basic financial statements and have issued our report thereon dated October 31, 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 finding 2012-1 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 2012.2.

We noted certain other matters that we reported to management of the Town of Nantucket, Massachusetts in a separate letter dated October 31, 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

October 31, 2012, except for the Nantucket Islands Land Bank which is as of September 25, 2012



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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, 2012. 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 2012-2 in the accompanying Schedule of Findings and Questioned Costs, the Town of Nantucket did not implement a Cost Allocation Plan to calculate the indirect costs charged to the Highway Planning and Construction grant. 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 2012-2, 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, 2012.

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 2012-1 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, each major fund, and the aggregate remaining fund information of the Town of Nantucket, Massachusetts, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

October 31, 2012, except for the Nantucket Islands Land Bank which is as of September 25, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<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	\$ 22,056
Cash Assistance:		
School Breakfast Program	10.553	5,252
National School Lunch Program	10.555	<u>68,919</u>
TOTAL AGRICULTURE		<u>96,227</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Passed through Massachusetts Department of Public Health</u>		
Transformation Initiative Research Grants: Sustainable Community Research Grant Program	14.253	<u>11,655</u>
U.S. DEPARTMENT OF THE INTERIOR:		
<u>Passed through Massachusetts Department of Fish and Game:</u>		
Clean Vessel Act	15.616	<u>979</u>
U.S. DEPARTMENT OF JUSTICE:		
<u>Direct:</u>		
Public Safety Partnership and Community Policing Grants	16.710	<u>1,465</u>
U.S. DEPARTMENT OF TRANSPORTATION - FEDERAL AVIATION ADMINISTRATION:		
<u>Direct:</u>		
Airport Improvement Program	20.106	113,907
<u>Passed through Massachusetts Department of Transportation - Aeronautics Division:</u>		
Airport Improvement Program	20.106	4,549,862
U.S. DEPARTMENT OF TRANSPORTATION - FEDERAL HIGHWAY ADMINISTRATION:		
<u>Passed through Massachusetts Department of Transportation - Highway Division:</u>		
Highway Planning and Construction	20.205	<u>224,548</u>
TOTAL TRANSPORTATION		<u>4,888,317</u>
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	101,947
Special Education Grants to States	84.027	276,708
Handicapped - State Grants	84.027A	2,266
Rehabilitation Training_In-service Training	84.265	30
Improving Teacher Quality State Grants	84.367	28,189
Education Jobs Fund	84.410	127
<u>Passed through Massachusetts Department of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	8,960
ARRA - Rural Community Support Grants	84.215	<u>4,224</u>
TOTAL EDUCATION		<u>422,451</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
<u>Passed through Health Resources and Services Administration:</u>		
National Bioterrorism Hospital Preparedness Program	93.889	5,460
Community Transformation Grants	93.531	<u>22,500</u>
TOTAL HUMAN SERVICES		<u>27,960</u>
U.S. DEPARTMENT OF HOMELAND SECURITY:		
<u>Direct:</u>		
Airport Law Enforcement Officer Reimbursement Agreement Program	97.090	168,330
ARRA - Port Security Grant Program	97.116	15,492
<u>Passed through Massachusetts Federal Emergency Management Agency:</u>		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	<u>7,034</u>
TOTAL HOMELAND SECURITY		<u>190,856</u>
TOTAL		<u>\$ 5,639,910</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>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555
Highway Planning and Construction Cluster	
Highway Planning and Construction	20.205
Recreational Trails Program	20.219
Appalachian Development Highway System	23.003
Special Education Cluster (IDEA)	
Special Education - Grants to States (IDEA, Part B)	84.027
Special Education Preschool Grants (IDEA, Preschool)	84.173

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 was one audit finding 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

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**2012-1- Material Weakness**

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

- Inadequate Design and Operation of Internal Control Over Significant Accounts
 - 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 timely. This has resulted in deficit balances that will require funding.
 - The Town has not had a reliable system for monitoring capital borrowing and the associated capital expenditures. This has resulted in the Town holding unspent bond proceeds dating back several years for which the Town has not determined allowable alternative uses for the funds.
 - 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.
 - Although the Town has implemented a monthly cash and receivable reconciliation process, there have been monthly unidentified cash adjustments recorded to revenue accounts on the Town's ledgers. This is an indication that all activity has not been properly identified and recorded in the correct accounts on the Town's ledgers.

- Failure to Comply With Procurement Laws and Regulations
 - The Town has not enforced procurement laws to ensure that all 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 and 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.

Auditor's Recommendation: We recommend that the Town implement a system in insure that all account reconciliations are performed timely, that the Town determine and document how unspent bond proceeds should be utilized and how completed capital project deficits will be funded, and that procurement laws are followed.

Auditee's Response: The Town concurs with the recommendation.

Inadequate Design and Operation of Internal Control Over Significant Accounts.

Capital Projects: In Fiscal Year 2012, the Town began to institute account level internal controls that pertain to capital projects, subject to borrowing. At the department level, staff can view the account; however they are unable to process any requisitions, purchase orders, or invoices against the appropriation as the account is inactive until borrowing has occurred.

In addition, in the spring of Fiscal Year 2012, the Town established a separate and distinct capital projects fund for each of the enterprise funds as opposed to recording all activity in the enterprise funds operating budget. The process of separating the two activities allows for increased transparency relating to each of the respective projects within each of the enterprise fund capital projects fund.

In the winter of Fiscal Year 2013, the Town began a process of reporting capital projects account status for the general fund, capital projects funds, and enterprise funds on a monthly basis. Each specific project is detailed to include the account number, purpose, original appropriation approved at Town Meeting, if the project was subject to borrowing and the amount borrowed thus far, grants awarded, grants received, bond proceeds, expenditures, and remaining budgetary balance. We believe monitoring these accounts on a monthly basis will reduce the likelihood of expending fund prior to borrowing and spending in excess of the authorized amount.

To ensure this weakness is resolved in the near future, continued co-operation is required from departments under jurisdiction of Commissions outside of Town Administration.

Unidentified Cash Adjustments: In FY2012, the Town recorded \$165,000 in unidentified cash adjustments to a revenue account in the Town ledger. These adjustments were made in an ongoing effort to review inactivity within balance sheet accounts that date back to the late 1990's and early 2000's. Many of the accounts were established as a result of prior audit adjustments in the early 2000's that have shown no account activity since the original entry. When reviewing the old audit work papers, there was a lack of supporting documentation and/or descriptions as to why the adjustment was needed or explanation as to where the revenue was originally derived from. Every effort was made to try to locate any and all supporting information; however it simply wasn't available. Therefore, the Town corrected these inconsistencies using the unidentified cash adjustment account to ensure the integrity of the current town balance sheets and financial reporting.

Failure to Comply With Procurement Laws and Regulations

The Town agrees with the auditor's recommendation. Town Administration, the Finance Director, and Chief Procurement Officer will continue to reaffirm the importance of compliance with Procurement Laws and Regulations within the Commonwealth of Massachusetts to all departments including the Town, School, Enterprise departments, and respective Commissions. In addition, the Town plans to implement a formal Procurement Policy in the winter of Fiscal Year 2013.

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

2012-2

U.S. DEPARTMENT OF TRANSPORTATION – FEDERAL HIGHWAY ADMINISTRATION
 Passed through the Massachusetts Department of Transportation – Highway Division

		Questioned Costs
Highway Planning and Construction	20.205	Unknown

Condition and Criteria: The Town did not have a documented cost allocation plan that could be used to calculate the indirect costs charged to the Highway Planning and Construction grant. OMB Circular A-87 requires the Town document a cost allocation plan. The Department of Transportation has advised the Town on several occasions of the requirement to develop and maintain a cost allocation plan.

Cause: Lack of procedures in place to ensure treatment of indirect costs.

Effect: The Town is not in compliance with the requirements of OMB Circular A-87.

Auditor’s Recommendation: It is recommended the cost allocation plan be finalized and procedures be implemented to ensure it is being followed.

Auditee’s Response: The Town concurs with the auditor’s recommendation. In Fiscal Year 2013, the Assistant Town Accountant, Director of Planning, and Transportation Planner met with representatives from the State and Audit Firm to discuss the 3C Indirect Charges process and cost allocations. An internal process will be documented and implemented in Fiscal Year 2013. In addition, the Director of Finance and Director of Planning will establish quarterly meetings to identify and address any potential costs that may have been improperly reported in the general fund as well as identify costs that the state has deemed as non-reimbursable.

D. Prior Year Audit Findings and Questioned Costs

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.

Current Status: During fiscal year 2012, the Town improved on the timeliness of transferring funds from the Enterprise Fund bank accounts and for confirming that the respective departments agreed with the amounts transferred. Please refer to finding 2012-1 for additional information on the status of this finding.

2011-2

U.S. DEPARTMENT OF TRANSPORTATION – FEDERAL AVIATION ADMINISTRATION

	Questioned Costs
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.

Current Status: During fiscal year 2012, the Town conducted a forensic audit and has taken steps to ensure compliance with procurement laws relating to future contracts. However, during fiscal year 2012, the Town continued to have situations where contracts were entered into prior to following the proper procurement process.

2011-3

U.S. DEPARTMENT OF EDUCATION		Questioned <u>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.

Current Status: This finding has been resolved. The School Department has implemented a process for obtaining the appropriate time and effort documentation for all employees paid out of the fiscal year 2012 Special Education grants.

2011-4

U.S. DEPARTMENT OF EDUCATION		Questioned <u>Costs</u>
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.

Current Status: This finding has been resolved. The Final Financial Reports for the Special Education Grants to States and Special Education Preschool Grants that were due by October 31, 2012 were submitted on time.