

**TOWN OF WESTERLY, RHODE ISLAND**

**FEDERAL SINGLE AUDIT REPORT**

**JUNE 30, 2013**

**TOWN OF WESTERLY, RHODE ISLAND**

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**Independent Auditors' Report on Compliance for Each Major Federal Program;  
Report on Internal Control over Compliance; and Report on the Schedule of  
Expenditures of Federal Awards Required by OMB Circular A-133**

To the Honorable President and Members of the Town Council  
Town of Westerly, Rhode Island

**Report on Compliance for Each Major Federal Program**

We have audited the Town of Westerly, Rhode Island's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Westerly, Rhode Island's major federal programs for the year ended June 30, 2013. The Town of Westerly, Rhode Island's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Town of Westerly, Rhode Island's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Westerly, Rhode Island's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Westerly, Rhode Island's compliance.

### ***Basis for Qualified Opinion on Community Development Block Grant***

As described in the accompanying schedule of findings and questioned costs, the Town of Westerly, Rhode Island, did not comply with requirements regarding CFDA #14.228 Community Development Block Grant as described in finding number 2013-001 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the Town of Westerly, Rhode Island, to comply with the requirements applicable to that program.

### ***Qualified Opinion on Community Development Block Grant***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Town of Westerly, Rhode Island, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Community Development Block Grant for the year ended June 30, 2013.

### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the Town of Westerly, Rhode Island, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

The Town of Westerly, Rhode Island's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Westerly, Rhode Island's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the Town of Westerly, Rhode Island, 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 Westerly, Rhode Island's 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 OMB Circular A-133, 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 Westerly, Rhode Island's 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 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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-001, that we consider to be significant deficiencies.

The Town of Westerly, Rhode Island's response to the internal control over compliance finding(s) identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Westerly, Rhode Island's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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 Westerly, Rhode Island, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Westerly, Rhode Island's basic financial statements. We issued our report thereon dated February 12, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming 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 OMB Circular A-133 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.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
February 12, 2014

**TOWN OF WESTERLY, RHODE ISLAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<b>United States Department of Agriculture</b>			
<i>Passed Through the Rhode Island Department of Education:</i>			
Child Nutrition Cluster:			
National School Lunch Program:			
Cash assistance	10.555	N/A	\$ 437,773
Non-cash assistance (commodities)	10.555	N/A	75,682
School Breakfast Program:	10.553	N/A	110,409
.06 additional	10.553		11,538
Senate Breakfast	10.553		3,711
			<u>639,113</u>
 Fresh Fruit and Vegetable	 10.582	 2725-17602-030	 <u>43,765</u>
 Total United States Department of Agriculture			 <u>682,878</u>
<b>United States Department of Housing and Urban Development</b>			
<i>Passed Through the Rhode Island Division of Planning, Office of Housing and Community Development:</i>			
CDBG - State Administered CDBG Cluster:			
Community Development Block Grant - 2010	14.228	10/36/29	70,612
Community Development Block Grant - 2009	14.228	09/36/28	10,024
Community Development Block Grant - 2011	14.228	11/36/30	1,907,278
			<u>1,987,914</u>
 Total United States Department of Housing and Urban Development			 <u>1,987,914</u>
<b>United States Department of Justice</b>			
<i>Direct Programs:</i>			
Sex Offender Task Force	16.000	JLEOTFS4	3,153
Federal Seized Assets	16.000	N/A	45,911
			<u>49,064</u>
 Total United States Department of Justice			 <u>49,064</u>
<b>United States Department of Transportation</b>			
<i>Passed Through the Rhode Island Department of Transportation:</i>			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	N/A	13,157

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**TOWN OF WESTERLY, RHODE ISLAND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<b>United States Department of Education</b>			
<i>Passed Through the Rhode Island Department of Education:</i>			
Title I, Part A Cluster:			
Title I	84.010	2725-11702-201	\$ <u>403,494</u>
Special Education Cluster (IDEA):			
IDEA Part B	84.027	2725-13202-201	909,333
COZ	84.027	2720-10501-101	21,200
Preschool	84.173	2725-13502-201	<u>25,917</u>
			<u>956,450</u>
Title III	84.365	2725-16502-201	16,396
Title III - Immigrant Assistance	84.365	1420-54100-210	<u>1,525</u>
			<u>17,921</u>
Title II - Improving Teacher Quality	84.367	2725-16402-201	<u>172,893</u>
Education Job Fund	84.410	4572-13502-160	<u>214,454</u>
ARRA - Race to the Top - IIS Set Aside	84.395A	4572-13502-160	7,966
ARRA - Race to the Top - Standards and Curriculum	84.395A	4572-13502-110	15,107
ARRA - Race to the Top - Educator Effectiveness	84.395A	4572-13502-130	<u>39,156</u>
			<u>62,229</u>
Common Core	N/A	2720-11801-201	<u>3,503</u>
Even Start	84.181	2720-12201-301	<u>57,551</u>
Westerly TSA Leadership	84.048	2725-15702-301	<u>14,022</u>
Total United States Department of Education			<u>1,902,517</u>
<b>United States Department of Health and Human Services</b>			
<i>Passed Through the Rhode Island Department of Health:</i>			
MEDS	93.069	N/A	<u>4,888</u>

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**TOWN OF WESTERLY, RHODE ISLAND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<b>United States Department of Energy</b>			
<i>Passed Through the Rhode Island Office of Energy Resources:</i>			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	EECBG ARRA 2010-01	\$ <u>124,437</u>
<b>United States Department of Homeland Security</b>			
<i>Passed Through the Rhode Island Emergency Management Agency:</i>			
Disaster Grants	97.036	N/A	2,081,586
SHSP - Active Shooter	97.073	38-115A-FY08	<u>4,980</u>
Total United States Department of Homeland Security			<u>2,086,566</u>
<b>Total Federal Awards Expended</b>			<b>\$ <u><u>6,851,421</u></u></b>

The accompanying notes are an integral part of this schedule



**TOWN OF WESTERLY, RHODE ISLAND**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Town of Westerly, Rhode Island, under programs of the federal government for the year ended June 30, 2013. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Because the Schedule presents only a selected portion of the operations of the Town of Westerly, Rhode Island, it is not intended to, and does not, present the financial position, changes in fund balance, changes in net position or cash flows of the Town of Westerly, Rhode Island.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 - NONCASH AWARDS**

Donated commodities in the amount of \$75,682 are included in the Department of Agriculture's National School Lunch Program, CFDA #10.555. The amount represents the market value of commodities received.



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**Independent Auditors' 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 President and Members of the Town Council  
Town of Westerly, Rhode Island

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Westerly, Rhode Island, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Westerly, Rhode Island's basic financial statements, and have issued our report thereon dated February 12, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Westerly, Rhode Island's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Westerly, Rhode Island's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Westerly, Rhode Island's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2012-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-003 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Westerly, Rhode Island's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Town of Westerly, Rhode Island's Response to Findings**

The Town of Westerly, Rhode Island's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Westerly, Rhode Island's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town of Westerly, Rhode Island's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Westerly, Rhode Island's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
February 12, 2014

**TOWN OF WESTERLY, RHODE ISLAND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?   X   yes        no
- Significant deficiency(ies) identified?   X   yes        none reported
- Noncompliance material to financial statements noted?        yes   X   no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?        yes   X   no
- Significant deficiency(ies) identified?   X   yes        none reported

Type of auditors' report issued on compliance for major programs: Qualified  
with regard to subrecipient monitoring for CFDA #14.228, CDBG Cluster.  
Unmodified for all other grants and requirements.

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

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
14.228	CDBG Cluster
81.128	ARRA - Energy Efficiency and Conservation Block Grant
97.036	Disaster Grants

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

Auditee qualified as low-risk auditee?        yes   X   no

## II. FINANCIAL STATEMENT FINDINGS

**2012-001**

### **Financial Reporting**

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Criteria** The financial statements are the responsibility of management, and, accordingly, the Town should have internal control over financial reporting that provides reasonable assurance that the financial statements and related notes are prepared in conformity with accounting principles generally accepted in the United States of America and that the entity's system of internal control should be functioning in a manner that ensures procedures are in place to prevent, detect and correct misstatements in the financial statements in a timely manner.

**Condition** The Town experienced significant delays in closing the general ledger. In addition, we noted numerous instances where accounts were not reconciled properly. As a result, material audit adjustments were recorded to the Town's general ledger. Some of the areas where adjustments were made included:

- Calculation and recording of compensated absence balances
- Revenue recognition in governmental funds
- Interfund balances and activity
- Allowance for doubtful accounts
- Fund balances not reconciled to the prior year audited financial statements
- Grant receivables, deferrals and payables
- Debt proceeds
- Cutoff procedures

**Context** The above deficiencies resulted in numerous auditor proposed journal entries needing to be recorded, and an extension of time for issuance of the financial statements had to be requested from the regulatory body.

**Effect** The basic financial statements may not be prepared in conformity with accounting principles generally accepted in the United States of America.

**Cause** Lack of written accounting procedures along with a lack of supervisory review.

**Recommendation** It is imperative that the Town establish a system of internal control where financial statements and related notes are prepared in conformity with accounting principles generally accepted in the United States of America. This system should be functioning in a manner that ensures procedures are in place to prevent, detect and correct misstatements in a timely manner. Many of the problems identified by the audit process could have been avoided if the records were reconciled and reviewed on a timely basis by appropriate personnel.

We suggest that a formal accounting policies and procedures manual be developed, documented and distributed to all employees. The manual should contain such important processes and procedures as:

- Cash reconciliations
- General ledger account reconciliations, including reconciling fund balance and proper recording of encumbrances
- Journal entry procedures and approval
- Proper posting of due to/from interfund accounts
- Proper posting of transfer interfund accounts
- Proper calculation and recording of liabilities and debt issuances
- Procedures for accounting for capital assets, depreciation, impairment
- Accounting for pension and other post employment activity
- Checklist for the annual close process
- Provision for supervisory review

In addition, finance personnel could benefit from training in governmental accounting. The Government Finance Officers Association offers many classes throughout the year in various locations.

**Management  
Response and  
Planned  
Corrective  
Action**

The Town Finance Department continues to have staffing issues. The sole accounting position was filled in spring of 2013, but that individual left soon after starting. The position was finally filled in November 2013. The Town's payroll position and accounts payable position were also vacated in 2013, and only in the second half of calendar year 2013 were these positions filled. These vacancies put increased demands on remaining staff.

Fiscal Year 2013 was the first year of a new auditing firm. The last change was 5 years prior. Recommendations in changes and improvements to accounting for compensated absences and allowance for doubtful accounts of the new auditor were implemented, and these new procedures and improvements resulted in additional work needing to be performed. Now that these procedures are in place, we do not expect issues in these areas.

Inter-fund balances and activity was primarily due to issues around the Health Fund. Much of payments and administration of the Health Fund were the responsibility of Personnel. New procedures have been established for payments into the fund, reimbursements from OPEB and Pension Funds, and procedures for reconciliation of the fund.

The Tax/Revenue Office was without a Tax Collector for most of the year. An interim was appointed in October 2012. This individual was made permanent in the spring of 2013. Under direction of new Tax Collector, a manual for the office is being developed. The Tax Collector is working with the new accountant to develop procedures and safeguards to improve reporting of all sources of revenue.

Grants are managed by the Department of Planning, Zoning, Code Enforcement, Inspection and Grant Management. As noted in comments to finding 2013-002, the department will be receiving significant training in procedures related to Grants and Grant Management.

The Town relied on audit adjustments from the prior auditor for fund balance of prior year. Due to the FY 2013 staff shortages, these funds were not reviewed. A procedure change has been implemented that all audit adjustments are individual journal entries, and not mass adjustments. This will provide the audit trail for reconciliation.

Issues with debt proceeds and cut-off procedures again can be traced back to staffing levels and training. The finance department has been fully staffed since November 2013. This is the first time in 2 years that all positions in the finance area have been filled at one time. In addition, a program of continuing education and training has been implemented. Staff now regularly attend GFOA & ASBOI training programs, in addition to training from software providers and other sources such as the University of RI Accountants & Auditor Programs, RI Municipal Affairs, and Hassenfeld Institute for Public Officials at Bryant University.

The finance department has a goal of developing a comprehensive written accounting procedures manual. It has started with divisions within the department, such as the Tax/Revenue Office mentioned above, a payroll division manual that has been started, and purchasing department manual that has been completed.

**2012-003**

**Capital Assets**

**Type of Finding:** Significant Deficiency in Internal Control over Financial Reporting

**Criteria** The financial statements are the responsibility of management, and, accordingly, the Town should have internal control over financial reporting that provides reasonable assurance that financial statement elements are properly accounted for in conformity with accounting principles generally accepted in the United States of America and that the entity's system of internal control should be functioning in a manner that ensures procedures are in place to prevent, detect and correct misstatements in the financial statements in a timely manner.

**Condition** The Town does not have adequate policies and procedures in place to properly account for the Town's capital assets. While progress has been made over the past year, a review of the capital assets was not performed until well after year end. The Town engaged a firm to assist with this process; however, significant time had to be spent by the Town in reviewing what the firm had reported and adjustments had to be recorded. While it is acceptable to contract out these services, proper controls and monitoring still need to be put in place at the Town to ensure the balances are accurate and complete.

In addition, the Town needs to institute procedures where any asset impairment is accounted for properly.

**Effect** The basic financial statements may not be prepared in conformity with accounting principles generally accepted in the United States of America.

**Cause** Lack of written accounting procedures along with a lack of supervisory review.



**Recommendation** We recommend that the Town establish and follow detailed procedures to account for its capital assets. These procedures should include:

- Proper identification of capital asset purchases through the accounts payable cycle
- Proper identification of capital asset disposals and any related proceeds
- Accurate calculation of depreciation expense including reviewing the useful lives
- Identification and tracking of construction in progress

The Town should also consider conducting a physical inventory of all capital assets and reconcile this inventory to what is recorded in the general ledger.

All assets should be reviewed on an annual basis by all departments to ensure the listing is complete and accurate and that there were no instances of asset impairment.

These procedures should be incorporated in an accounting policies and procedure manual as suggested in finding No. 2012-001.

**Management  
Response and  
Planned  
Corrective  
Action**

Management of capital assets continues to be an issue. Contracting out this for FY 2013 was part of the realization of lack of staff and resources to complete this task in house. The Town has been investing more in technology in the last several years to address issues such as this. Capital asset management software is available as part of the current accounting software. It is the plan to continue to pursue funding for this tool and provide training to departments on what a capital asset is.

Other avenues currently being pursued are the use of interns to assist in performance of physical inventory.

### III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<b>2013-001</b>	<b>Subrecipient Monitoring</b>
<b>Type of Finding</b>	Significant Deficiency over Compliance
<b>Program</b>	Community Development Block Grant CFDA #14.228
<b>Criteria</b>	The Town must perform monitoring of subrecipients by obtaining a copy of the subrecipients' federal single audit if one was required. The contract that is drafted between the Town and the subrecipient must contain certain language under OMB Circular A-133 including the source of funding and the federal CFDA number.
<b>Condition</b>	Town personnel did not inquire of the subrecipient whether or not they received a federal single audit. The written contracts did not identify the source of funding or the federal CFDA number.
<b>Questioned Costs</b>	No costs were questioned.
<b>Context</b>	Of the three subrecipients who received \$100,394, this particular subrecipient received \$93,000.
<b>Effect</b>	The organization failed to comply with the requirements.
<b>Cause</b>	Management was unaware of this requirement.
<b>Recommendation</b>	We recommend that management implement controls to ensure that single audit requirements are included in subrecipient contracts, and that, as applicable, the subrecipient single audit reports are obtained, reviewed and followed up upon with each subrecipient.
<b>Management Response and Planned Corrective Action</b>	The Town has contracted the grant administration of the Community Development Block Grant (CDBG) since 2000. The Town is in a Consortium with the other Washington County communities, and the Consortium implements and administers the grant funding. The Town understands it is ultimately responsible for all financial reporting and requirements associated with federal grant funding; however, it did not have any reason to believe that any requirements were not being met. The CDBG grant is the only grant that the Town administers that has sub-recipients up until this fiscal year. The Town staff did not oversee any other programs where this requirement would be required. Upon recognition of the deficiency from the auditors, the Town informed the contractor at the Consortium of the requirement and directed that they implement this action. This was also reiterated in a face-to-face meeting with the contractor and the Town Manager. The Town will implement controls to ensure that single audit requirements are included in sub-recipient contracts and that, as applicable, the sub-recipient single audit reports are obtained, reviewed, and followed up upon with each sub-recipient. By the end of March, the Town will have a written

policy with the listed conditions and request form in place that will be sent to every current sub-recipient annually and it will also be included in every new contract issued through CDBG. This will be incorporated into an updated contract with the Consortium and will remain part of their administration responsibility, but the Town will ensure overall compliance.

#### **IV. STATUS OF PRIOR YEAR FINDINGS**

##### **Prior Audit Findings Resolved:**

<u>Finding Number</u>	<u>Description</u>
2012-002	This finding has been resolved.

##### **Prior Audit Findings Unresolved:**

<u>Finding Number</u>	<u>Description</u>
2012-001	The finding is repeated in the current year.
2012-003	This finding was somewhat resolved but is continued in the current year.