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TOWN OF WESTERLY, RHODE ISLAND

FEDERAL SINGLE AUDIT REPORT

JUNE 30, 2016

**TOWN OF WESTERLY, RHODE ISLAND
FEDERAL SINGLE AUDIT REPORT
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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 Compliance Supplement* that could have a direct and material effect on the Town of Westerly, Rhode Island's major federal program for the year ended June 30, 2016. The Town of Westerly, Rhode Island's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Town of Westerly, Rhode Island's major federal program 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 the audit 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). Those standards and the Uniform Guidance 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 the major federal program. However, our audit does not provide a legal determination of the Town of Westerly, Rhode Island's compliance.

Opinion on Each Major Federal Program

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 its major federal program for the year ended June 30, 2016.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 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. 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 of internal control over compliance and the results of that testing based on the requirements of the 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, 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, 2016, 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 December 29, 2016, 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 the 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.

Blum, Shapiro & Company, P.C.

Cranston, Rhode Island
December 29, 2016

**TOWN OF WESTERLY, RHODE ISLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
United States Department of Agriculture			
<i>Passed Through the Rhode Island Department of Education:</i>			
Child Nutrition Cluster:			
National School Lunch Program			
Cash assistance	10.555		\$ 454,935
Noncash assistance (commodities)	10.555		42,449
School Breakfast Program	10.553		120,239
.06 additional	10.553		<u>12,632</u>
			\$ 630,255
Fresh Fruit and Vegetable	10.582	2725-17602-030	<u>37,884</u>
Total United States Department of Agriculture			<u>668,139</u>
United States Department of Housing and Urban Development			
<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	28,838
Community Development Block Grant - 2011	14.228	11/36/30	9,143
Community Development Block Grant - 2011	14.228	11/36/30	9,144
Community Development Block Grant - 2012	14.228	12/36/31	202,228
Community Development Block Grant - 2013	14.228	13-36-32	45,548
Community Development Block Grant - 2015	14.228	HPG-15	44,350
Community Development Block Grant - 2015	14.228	HPG-15	<u>3,484</u>
			342,735
CDBG - Disaster Recovery Grants Cluster:			
Community Development Block Grant - Disaster Recovery 2011	14.269	11/36/30	46,555
Community Development Block Grant - Disaster Recovery 2013	14.269	13-38-DR01	148,156
Community Development Block Grant - Disaster Recovery 2014	14.269	14/36/33	<u>6,778</u>
			201,489
Total United States Department of Housing and Urban Development			<u>544,224</u>
United States Department of Transportation			
<i>Passed through the Rhode Island Department of Transportation:</i>			
Highway Safety Cluster:			
State and Community Highway Safety	20.600		<u>11,058</u>

The accompanying notes are an integral part of this schedule

TOWN OF WESTERLY, RHODE ISLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
United States Department of Education			
<i>Passed through the Rhode Island Department of Education:</i>			
Title I, Part A Cluster:			
Title I	84.010	2725117.02.02	\$ 469,618
Special Education Cluster (IDEA):			
IDEA Part B	84.027	2725132.02.02	\$ 729,998
Preschool	84.173	2725135.02.02	<u>25,766</u>
			755,764
Title III, Part A	84.365	2725165.02.02	8,067
Title II - Improving Teacher Quality	84.367	2725164.02.02	163,176
Adult Education - Basic Grants to States	84.002	2720-12201-1301	<u>52,803</u>
Total United States Department of Education			<u>1,449,428</u>
United States Department of Justice			
<i>Direct Programs:</i>			
Edward Byrne Memorial JAG Program	16.738		16,100
Sex Offender Registration Grant	16.203		<u>2,090</u>
Total United States Department of Justice			<u>18,190</u>
United States Department of Homeland Security			
<i>Passed through the Rhode Island Emergency Management Agency:</i>			
Project A Storm Ready	97.045		2,490
Communications Equipment	97.055		12,711
Hazard Mitigation Grant Program	97.039		<u>156,454</u>
Total United States Department of Homeland Security			<u>171,655</u>
United States Environmental Protection Agency			
<i>Direct Programs:</i>			
Cooperative Agreements	66.818		<u>10,492</u>
United States Department of Health and Human Services			
<i>Direct Programs:</i>			
Substance Abuse Grant	93.243		<u>131,083</u>
Total Federal Awards Expended			<u>\$ 3,004,269</u>

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, 2016**

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Town of Westerly, Rhode Island, under programs of the federal government for the year ended June 30, 2016. The information in the 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 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.

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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. NONCASH AWARDS

Donated commodities in the amount of \$42,449 are included in the Department of Agriculture's National School Lunch Program, CFDA #10.555. The amount represents the market value of commodities received.

4. INDIRECT COST RECOVERY

The Town of Westerly, Rhode Island, did not recover its indirect costs using the 10% de minimis indirect cost rate provided under Section 200.414 of the Uniform Guidance.

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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, 2016, 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 December 29, 2016.

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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001, that we consider 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 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 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.

Cranston, Rhode Island
December 29, 2016

**TOWN OF WESTERLY, RHODE ISLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X 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? yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? yes X no

Major programs:

CFDA #	Name of Federal Program or Cluster
84.027/84.173	Special Education Cluster (IDEA)

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes no

II. FINANCIAL STATEMENT FINDINGS

2016-001 Capital Lease Accounting

Criteria The Town is responsible for the preparation of the financial statements and designing, implementing and maintaining internal controls relevant to the presentation of the financial statements. This requires the review of any lease arrangement entered into in order to ensure it is appropriately accounted for as either an operating or capital lease.

Condition During our procedures over capital assets and debt, it was noted that there was a lease entered into during the previous fiscal year that was recorded as an operating lease that was more appropriately classified and recorded as a capital lease. This resulted in a prior period adjustment in order to restate the balances of net position and related capital asset and capital lease liability.

Context The restatement resulted in additional amounts being recorded to both capital assets and to the capital lease liability.

Effect	Prior period balances needed to be restated.
Cause	The Town does not have a defined process in place by which new lease agreements are reviewed to ensure they are being classified appropriately.
Recommendation	We recommend that appropriate corrective actions be taken to establish a process for the analysis of lease arrangements for appropriate accounting treatment.
Views of Responsible Officials	Management is receptive to this condition.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.