

**CITY OF CRANSTON,
RHODE ISLAND**

***Auditors' Reports as Required by OMB Circular A-133
and
Government Auditing Standards***

Year Ended June 30, 2011

CITY OF CRANSTON, RHODE ISLAND

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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 Mayor and
Members of the City Council
City of Cranston
Cranston, Rhode Island

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 City of Cranston, Rhode Island as of and for the year ended June 30, 2011, which collectively comprise the City of Cranston, Rhode Island's basic financial statements and have issued our report thereon dated December 23, 2011. 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

Management of the City of Cranston, Rhode Island is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Cranston, Rhode Island's 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 City of Cranston's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cranston's internal control over financial reporting.

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 a 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Needham
Boston
Concord
Taunton

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cranston, Rhode Island's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2011-1.

We noted certain other matters that we reported to management of the City of Cranston, Rhode Island in a separate letter titled *Letters of Observation and Recommendations* dated December 22, 2011.

The City of Cranston, Rhode Island's response to the findings and questioned costs identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Cranston, Rhode Island's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, School Committee, audit committee, 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.



Providence, Rhode Island
December 22, 2011

INDEPENDENT AUDITORS' 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 Mayor and
Members of the City Council
City of Cranston
Cranston, Rhode Island

Compliance

We have audited City of Cranston, 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 City of Cranston, Rhode Island's major federal programs for the year ended June 30, 2011. City of Cranston, Rhode Island's major federal programs are identified in the summary of auditor's 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 City of Cranston, Rhode Island's management. Our responsibility is to express an opinion on City of Cranston, Rhode Island's 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 City of Cranston, 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. Our audit does not provide a legal determination of the City of Cranston, Rhode Island's compliance with those requirements.

As described in item 2011-1 in the accompanying schedule of findings and questioned costs, the City of Cranston, Rhode Island did not comply with the requirements regarding allowable costs that are applicable to its (1) IDEA grant cluster, (2) Title I grant cluster, (3) Perkins, and (4) Title II federal programs. Compliance with such requirement is necessary, in our opinion, for the City of Cranston, Rhode Island to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, City of Cranston, Rhode Island complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Needham
Boston
Concord
Taunton

Internal Control Over Compliance

Management of the City of Cranston, Rhode Island is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Cranston, Rhode Island's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 City of Cranston, Rhode Island's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a significant deficiency.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Cranston, Rhode Island, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 22, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

The City of Cranston'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 City of Cranston, Rhode Island's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the City Council, School Committee, audit committee, 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.



Providence, Rhode Island
January 23, 2012, except for the paragraph
regarding the Schedule of Federal Awards
as to which the date is December 22, 2011

CITY OF CRANSTON, RHODE ISLAND

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2011**

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Cranston, Rhode Island. All federal awards received from federal agencies are included on the Schedule of Expenditures of Federal Awards. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

3. Determination of Major Programs

The determination of major federal financial assistance programs was based upon the overall level of expenditures for all federal programs for the City of Cranston, Rhode Island. As such, the threshold for determining Type A and Type B programs is defined as those with program expenditures greater than \$300,000 or 3 percent of total expenditures when the total expenditures are over \$10,000,000. For the fiscal year ended June 30, 2011, the following programs were considered major programs:

ARRA - SFSF LEA Stabilization Grant.....	CFDA # 84.394
IDEA Part B*.....	CFDA # 84.027
ARRA - IDEA Part B*.....	CFDA # 84.391
Special Education - Preschool*.....	CFDA # 84.173
ARRA - Special Education - Preschool*.....	CFDA # 84.392
Title I**.....	CFDA # 84.010
ARRA - Title I**.....	CFDA # 84.389
Perkins.....	CFDA # 84.048
Title II.....	CFDA # 84.367
E2T2 MCI***.....	CFDA # 84.318
ARRA - E2T2***.....	CFDA # 84.386
Community Development Block Grant.....	CFDA # 14.218
ARRA - EECBG.....	CFDA # 81.128
ARRA - Highway Construction and Planning.....	CFDA # 20.205

* These programs are in a cluster and therefore considered one program for compliance requirements (** and *** denote a second and third cluster).

CITY OF CRANSTON, RHODE ISLAND

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures Incurred</u>
U.S. Department of Agriculture		
Pass through State Department of Education:		
National School Lunch Program	10.555	\$ 1,595,095
School Breakfast Program	10.553	274,881
School Milk Program for Children	10.556	629
Fresh Fruit and Vegetable Program	10.582	14,535
ARRA Kitchen Equipment	10.579	8,925
Total U.S. Department of Agriculture		<u>1,894,065</u>
U.S. Department of Housing and Urban Development		
Direct Program:		
Community Development Block Grant	14.218	1,556,064
Total U.S. Department of Housing and Urban Development		<u>1,556,064</u>
U.S. Department of Education		
Pass through the State Department of Education:		
IDEA Part B	84.027	2,963,046
ARRA - IDEA Part B	84.391	1,100,130
Special Education--Preschool	84.173	101,669
ARRA Special Education--Preschool	84.392	22,433
Title I	84.010A	2,478,576
ARRA - Title I	84.389	247,052
Vocational Education	84.048A	50,000
Perkins LT Plan	84.048A	393,480
Perkins LT Plan Ext 6-7	84.048A	23,882
Perkins FCCLA	84.048A	15,068
Intergrating Academics	84.048A	58,698
RI Skills USA- VICA	84.048A	147,284
Title III	84.365A	123,245
21st Century Community Learning	84.287C	225,966
PRIMES Grant Year 2	84.366B	343,070
Educational Technology State Grants (E2T2)	84.318	55,863
ARRA - Educational Technology State Grants (E2T2)	84.386	212,000
Title IV- Drug Free Schools	84.186A	12,996
ARRA - SFSF LEA Stabilization	84.394	876,188
Title II A	84.367A	771,518
Total U.S. Department of Education		<u>10,222,164</u>
U.S. Department of Energy		
Pass through the State of Rhode Island:		
ARRA - Energy Efficiency and Conservation Block Grant (EECBG)	81.128	771,459
Total U.S. Department of Energy		<u>771,459</u>

(CONTINUED)

CITY OF CRANSTON, RHODE ISLAND

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures Incurred</u>
<i>U.S. Department of Health and Human Services</i>		
Passed through the State of Rhode Island:		
Title III Part B	93.044	70,000
Medicare Enrollment Assistance Program	93.071	11,576
ARRA - Communities Putting Prevention to Work	93.725	4,900
<i>Total U.S. Department of Health and Human Services</i>		<u>86,476</u>
<i>U.S. Department of Homeland Security</i>		
Pass through the State of Rhode Island:		
Homeland Security Grant Program	97.067	35,384
Disaster Grant--Public Assistance (FEMA)	97.036	128,845
Port Security Grant Program	97.056	27,053
Emergency Management Performance Grants	97.042	62,618
Securing the Cities	97.106	24,596
<i>Total U.S. Department of Homeland Security</i>		<u>278,496</u>
<i>U.S. Department of Transportation</i>		
Pass through the State of Rhode Island:		
Passport to Safety	N/A	17,088
ARRA - Highway Construction and Planning	20.205	1,993,758
<i>Total U.S. Department of Transportation</i>		<u>2,010,846</u>
<i>U.S. Department of Public Safety</i>		
Pass through the State of Rhode Island:		
Byrne JAG Grant	16.803	135,578
<i>Total U.S. Department of Labor</i>		<u>135,578</u>
<i>U.S. Department of the Treasury</i>		
Pass through the State of Rhode Island:		
Volunteer Income Tax Assistance (VITA) Matching Grant Program	21.009	17,176
<i>Total U.S. Department of the Treasury</i>		<u>17,176</u>
<i>U.S. Corporation for National and Community Service</i>		
Pass through the State of Rhode Island:		
Retired and Senior Volunteer Program	94.002	63,681
<i>Total U.S. Corporation for National and Community Service</i>		<u>63,681</u>
<i>Total Expenditures of Federal Awards</i>		<u>\$ 17,036,005</u>

(CONCLUDED)

CITY OF CRANSTON, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expressed an unqualified opinion on the governmental activities and an unqualified opinion on the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cranston, Rhode Island.
2. No significant deficiencies relating to the audit of the financial statements were reported in the Independent Auditors' Report.
3. One instance of noncompliance material to the financial statements of the City of Cranston, Rhode Island was disclosed during the audit.
4. One significant deficiency in internal control over with requirements applicable to major federal programs was identified and is described in Part B below as item 2011-1.
5. The auditors' report on compliance for the major federal award programs for the City of Cranston, Rhode Island expresses a qualified opinion.
6. Audit findings relative to the major federal award programs for the City of Cranston are reported in Part C of this schedule.
7. The programs tested as major programs were:

ARRA - SFSF LEA Stabilization Grant.....	CFDA # 84.394
IDEA Part B*.....	CFDA # 84.027
ARRA - IDEA Part B*.....	CFDA # 84.391
Special Education - Preschool*.....	CFDA # 84.173
ARRA - Special Education - Preschool*.....	CFDA # 84.392
Title I**.....	CFDA # 84.010
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Perkins.....	CFDA # 84.048
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ARRA - E2T2***.....	CFDA # 84.386
Community Development Block Grant.....	CFDA # 14.218
ARRA - EECBG.....	CFDA # 81.128
ARRA - Highway Construction and Planning.....	CFDA # 20.205

* These programs are in a cluster and therefore considered one program for compliance requirements (** and *** denote a second and third cluster).

8. The threshold for distinguishing Type A and B programs is described in Note 3 to the Schedule of Expenditures of Federal Awards.
9. The City of Cranston, Rhode Island does not qualify as a low-risk auditee.

CITY OF CRANSTON, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS

Current Year Findings:

None noted.

C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

Current Year Findings:

2011-1: (1) IDEA Part B – CFDA #84.027, (2) ARRA IDEA Part B – CFDA #84.391, (3) Title I – CFDA #84.010, (4) Title I ARRA – CFDA #84.389, (5) Perkins – CFDA #84.048, & (6) Title II – CFDA #84.367

Criteria: The Cranston School Department may receive direct federal funding as well as federal funding passed through the State of Rhode Island. During our audit we noted instances where payroll records supporting cost allocations to federal programs were not being maintained in accordance with the requirements of OMB Circular A-87. The circular requires that payroll costs charged to federally funded programs be supported as follows:

- Salaries and wages for employees working 100% of their time on a single Federal award or cost objective must be supported by periodic certifications. These certifications must be prepared at least semi-annually and must be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
- Salaries and wages for employees working on multiple activities or cost objectives must be supported by (a) personnel activity reports that reflect an after-the-fact distribution of the actual activity of the employee, (b) they must account for the total activity for which an employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee.

**Statement of
Condition:**

The Cranston School Department does not have an adequate policy or procedure requiring employees charged to federally funded programs to maintain time records or complete certifications in accordance with the requirements of OMB Circular A-87. The School Department did maintain records in the employee personnel files which note the position held by the employee however an actual time allocation of their hours worked was not maintained.

**Effect of
Condition:**

Failure to properly document and allocate payroll expenses to their corresponding program(s) may result in excess costs being charged to a federally funded program.

**Questioned
Costs:**

The results of our testing identified known questioned costs of approximately: \$14,055 for CFDA #84.027 and CFDA #84.391, \$9,278 for CFDA #84.010 and CFDA #84.389, \$9,717 for CFDA #84.048, and \$6,742 for CFDA #84.367.

(CONTINUED)

CITY OF CRANSTON, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS (Continued)

Current Year Findings (Continued):

Recommendation: We recommend that the management of the Cranston School Department develop and enforce a policy requiring all federally funded employees to maintain time records in accordance with the provisions of OMB Circular A-87 and that the policy include an internal audit function requiring someone independent of the federal program to review time records on a periodic basis for compliance.

Corrective Action: Management has already begun the process of creating an adequate policy and procedure of maintaining time records and/or certifications for those employees whose payroll is being charged to a federal fund. They have created a document to satisfy the time certification requirement and are implementing this mandatory procedure during fiscal year 2012. The document was provided to the Rhode Island Department of Education for review and approval prior to implementation.

(CONTINUED)

CITY OF CRANSTON, RHODE ISLAND

**SUMMARY OF SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2011**

C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS (Continued)

Prior Year Findings:

2010-1: (1) IDEA Part B – CFDA #84.027, (2) ARRA IDEA Part B – CFDA #84.391, (3) Title I – CFDA #84.010, (4) Title I ARRA – CFDA #84.389, (5) Perkins – CFDA #84.048, & (6) Title II – CFDA #84.367

Criteria: The Cranston School Department may receive direct federal funding as well as federal funding passed through the State of Rhode Island. During our audit we noted instances where payroll records supporting cost allocations to federal programs were not being maintained in accordance with the requirements of OMB Circular A-87. The circular requires that payroll costs charged to federally funded programs be supported as follows:

- Salaries and wages for employees working 100% of their time on a single Federal award or cost objective must be supported by periodic certifications. These certifications must be prepared at least semi-annually and must be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.
- Salaries and wages for employees working on multiple activities or cost objectives must be supported by (a) personnel activity reports that reflect an after-the-fact distribution of the actual activity of the employee, (b) they must account for the total activity for which an employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee.

Status:

See current year finding 2011-1.

(CONCLUDED)