

**CITY OF CRANSTON,  
RHODE ISLAND**

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

***Year Ended June 30, 2012***

**CITY OF CRANSTON, RHODE ISLAND**

**TABLE OF CONTENTS**

**YEAR ENDED JUNE 30, 2012**

---

	<u>Page(s)</u>
<b><u>FINANCIAL STATEMENTS:</u></b>	
Schedule of Expenditures of Federal Awards .....	1 - 2
Notes to Schedule of Expenditures of Federal Awards.....	3
<b><u>REPORTING UNDER GOVERNMENT AUDITING STANDARDS:</u></b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> .....	4 - 5
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 .....	6 - 7
Schedule of Findings and Questioned Costs .....	8-10
Summary of Schedule of Prior Year Findings .....	11
Corrective Action Plan .....	12

---

CITY OF CRANSTON, RHODE ISLAND

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures Incurred</u>
<b><i>U.S. Department of Agriculture</i></b>		
Pass through State Department of Education:		
National School Lunch Program	10.555	\$ 1,696,556
School Breakfast Program	10.553	390,360
Special Milk Program for Children	10.556	437
Farm and Ranch Lands Protection Program	10.913	560,000
Watershed Protection and Flood Prevention	10.904	115,730
Fresh Fruit and Vegetable Program	10.582	121,292
<b><i>Total U.S. Department of Agriculture</i></b>		<u>2,884,375</u>
<b><i>U.S. Department of Housing and Urban Development</i></b>		
Direct Program:		
Community Development Block Grant	14.218	1,440,256
Community Development Block Grant Brownfields Economic Development Initiative	14.246	220,542
<b><i>Total U.S. Department of Housing and Urban Development</i></b>		<u>1,660,798</u>
<b><i>U.S. Department of Education</i></b>		
Pass through the State Department of Education:		
Special Education - Grants to States	84.027	3,061,616
Race To the Top	84.395A	249,068
ARRA - Race To the Top	84.395A	79,868
ARRA - Special Education Grants to States	84.391	45,076
Special Education--Preschool Grants	84.173	91,059
ARRA Special Education--Preschool Grants	84.392	73,042
Title I Grants to Local Education Agencies	84.010A	2,420,977
ARRA - Title I Grants to Local Education Agencies	84.389	61,832
Career and Technical Education - Basic Grants to States	84.048A	620,409
English Language Acquisition State Grants	84.365A	146,409
21st Century Community Learning Centers	84.287C	311,610
Mathematics and Science Partnerships	84.366B	259,494
ARRA - Education Jobs Fund	84.410	1,552,873
Educational Technology State Grants (E2T2)	84.318	82,778
ARRA - Educational Technology State Grants (E2T2)	84.386	306,202
Adult Education - Basic Grants to States	84.002	124,480
ARRA - SFSF LEA Stabilization	84.394	2,396
Improving Teacher Quality State Grants	84.367A	638,180
<b><i>Total U.S. Department of Education</i></b>		<u>10,127,369</u>
<b><i>U.S. Department of Energy</i></b>		
Pass through the State of Rhode Island:		
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	263,690
<b><i>Total U.S. Department of Energy</i></b>		<u>263,690</u>

The accompanying notes are an integral part of this schedule

(CONTINUED)

**CITY OF CRANSTON, RHODE ISLAND**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures Incurred</u>
<b><i>U.S. Department of Health and Human Services</i></b>		
Passed through the State of Rhode Island:		
Special Programs for the Aging Title III Part B - Grants for Supportive Services and Senior Centers	93.044	61,667
<b><i>Total U.S. Department of Health and Human Services</i></b>		<u>61,667</u>
<b><i>U.S. Department of Homeland Security</i></b>		
Pass through the State of Rhode Island:		
Homeland Security Grant Program	97.067	39,044
Disaster Grants--Public Assistance (Presidentially Declared Disasters)	97.036	1,949,267
Port Security Grant Program	97.056	58,000
Emergency Management Performance Grants	97.042	58,500
Hazardous Materials Grant	97.210	63,926
Assistance to Firefighters Grant	97.440	77,920
<b><i>Total U.S. Department of Homeland Security</i></b>		<u>2,246,657</u>
<b><i>U.S. Department of Transportation</i></b>		
Pass through the State of Rhode Island:		
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	27,129
<b><i>Total U.S. Department of Transportation</i></b>		<u>27,129</u>
<b><i>U.S. Department of Public Safety</i></b>		
Pass through the State of Rhode Island:		
ARRA - Public Safety Partnership and Community Policing Grants	16.710	359,330
Edward Byrne Memorial Justice Assistance Grant Program	16.738	4,700
<b><i>Total U.S. Department of Labor</i></b>		<u>364,030</u>
<b><i>U.S. Department of the Treasury</i></b>		
Pass through the State of Rhode Island:		
Volunteer Income Tax Assistance (VITA) Matching Grant Program	21.009	17,175
<b><i>Total U.S. Department of the Treasury</i></b>		<u>17,175</u>
<b><i>U.S. Corporation for National and Community Service</i></b>		
Pass through the State of Rhode Island:		
Retired and Senior Volunteer Program	94.002	50,944
<b><i>Total U.S. Corporation for National and Community Service</i></b>		<u>50,944</u>
<b><i>Total Expenditures of Federal Awards</i></b>		<u>\$ 17,703,834</u>

The accompanying notes are an integral part of this schedule

**(CONCLUDED)**

CITY OF CRANSTON, RHODE ISLAND

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2012**

---

**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 awards & 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 programs are defined as those with federal 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, 2012, the following programs were considered major programs:

ARRA - Education Jobs Fund.....	CFDA # 84.410
Special Education - Grants to States*.....	CFDA # 84.027
ARRA - Special Education Grants to States*.....	CFDA # 84.391
Special Education - Preschool Grants*.....	CFDA # 84.173
ARRA - Special Education - Preschool Grants*.....	CFDA # 84.392
Title I Grants to Local Education Agencies**.....	CFDA # 84.010
ARRA - Title I Grants to Local Education Agencies**.....	CFDA # 84.389
Career and Technical Education - Basic Grants to States.....	CFDA # 84.048
Improving Teacher Quality State Grants.....	CFDA # 84.367
Educational Technology State Grants (E2T2)***.....	CFDA # 84.318
ARRA - E2T2***.....	CFDA # 84.386
Farm and Ranch Lands Protection Program.....	CFDA # 10.913
Disaster Grants--Public Assistance (Presidentially Declared Disasters).....	CFDA # 97.036

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

**4. School Lunch Commodities**

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the cost of commodities provided by the School Lunch Program. The total federal share of these commodities was \$131,845 for the fiscal year ended June 30, 2012.

---

***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***

Honorable Mayor Allan W. Fung  
and Members of the Cranston City Council  
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, 2012, which collectively comprise the City of Cranston, Rhode Island's basic financial statements and have issued our report thereon dated December 27, 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**

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Cranston, Rhode Island's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cranston, Rhode Island'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 previously.

## 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 2012-1.

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 27, 2012.

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 27, 2012

**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**

**REPORT OF INDEPENDENT AUDITORS**

Honorable Mayor Allan W. Fung  
and Members of the Cranston City Council  
Cranston, Rhode Island

**Compliance**

We have audited the 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 the City of Cranston, Rhode Island's major federal programs for the year ended June 30, 2012. The City of Cranston, Rhode Island's 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 City of Cranston, Rhode Island's management. Our responsibility is to express an opinion on the 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 2012-1, 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) Special Education grant cluster, (2) Title I grant cluster, (3) Career and Technical Education grant, and (4) Improving Teacher Quality grant programs. Compliance with such requirements 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 noncompliance described in the preceding paragraph, the 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, 2012.



## **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 the 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. 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a material weakness.

## **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 the City of Cranston, Rhode Island, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 27, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cranston, Rhode Island's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 schedule of expenditures of federal awards 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  
March 4, 2013, except for the paragraph  
regarding the Schedule of Federal Awards  
as to which the date is December 27, 2012.



CITY OF CRANSTON, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The Report of Independent Auditors expressed an unqualified opinion on the governmental activities 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 Report of Independent Auditors.
3. Several instances of noncompliance material to the financial statements of the City of Cranston, Rhode Island were disclosed during the audit.
4. One deficiency in internal control over compliance with requirements applicable to major federal programs was identified and is described in Part C on the following page as item 2012-1. We considered this deficiency to be a material weakness.
5. 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 A-133 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 - Education Jobs Fund.....	CFDA # 84.410
Special Education - Grants to States*.....	CFDA # 84.027
ARRA - Special Education Grants to States*.....	CFDA # 84.391
Special Education - Preschool Grants*.....	CFDA # 84.173
ARRA - Special Education - Preschool Grants*.....	CFDA # 84.392
Title I Grants to Local Education Agencies**.....	CFDA # 84.010
ARRA - Title I Grants to Local Education Agencies**.....	CFDA # 84.389
Career and Technical Education - Basic Grants to States.....	CFDA # 84.048
Improving Teacher Quality State Grants.....	CFDA # 84.367
Educational Technology State Grants (E2T2)***.....	CFDA # 84.318
ARRA - E2T2***.....	CFDA # 84.386
Farm and Ranch Lands Protection Program.....	CFDA # 10.913
Disaster Grants--Public Assistance (Presidentially Declared Disasters).....	CFDA # 97.036

\* 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 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.

(CONTINUED)

CITY OF CRANSTON, RHODE ISLAND

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012*

---

**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:*

**2012-1: (1) Special Education Grants – CFDA #84.027, (2) ARRA - Special Education Grants – CFDA #84.391, (3) Title I – CFDA #84.010, (4) Title I ARRA – CFDA #84.389, (5) Career and Technical Education Grants – CFDA #84.048, & (6) Improving Teacher Quality Grants – 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: \$36,649 for CFDA #84.027 and CFDA #84.391, \$32,932 for CFDA #84.010 and CFDA #84.389, \$7,518 for CFDA #84.048, and \$14,328 for CFDA #84.367.

(CONTINUED)

CITY OF CRANSTON, RHODE ISLAND

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012*

---

**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.

(CONTINUED)

CITY OF CRANSTON, RHODE ISLAND

**SUMMARY OF SCHEDULE OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2012**

---

**C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS**

***Prior Year Findings:***

**2011-1: (1) Special Education Grants – CFDA #84.027, (2) ARRA - Special Education Grants – CFDA #84.391, (3) Title I – CFDA #84.010, (4) Title I ARRA – CFDA #84.389, (5) Career and Technical Education Grants – CFDA #84.048, & (6) Improving Teacher Quality Grants – 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 2012-1.

(CONCLUDED)



**CRANSTON PUBLIC SCHOOLS**  
845 PARK AVENUE  
CRANSTON, RHODE ISLAND 02910-2790

**JOSEPH A. BALDUCCI**  
CHIEF FINANCIAL OFFICER

**LARS S. ANDERSON**  
DIRECTOR OF BUSINESS

**Management's Response**

This grant compliance issue was first brought to management's attention during the 2010-2011 grant compliance audit conducted during the January-February 2012 time frame. Upon notification of this finding management created a system whereby all grant funded personnel are now required to complete either time & effort payroll data forms or bi-annual payroll certification forms. Furthermore, in order to stress the importance of this new procedure, management conducted training sessions with all grant employees and program directors. However, all of the above-described efforts took place after several months of the 2011-2012 fiscal year had already lapsed. Again, this was due to the timing of the grant compliance notification from the previous fiscal year.

In conclusion, on a go forward basis, the system developed by management is actively in place and therefore should no longer be recognized as a grant compliance finding.