

**CITY OF CRANSTON,
RHODE ISLAND**

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

Year Ended June 30, 2010

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, 2010, which collectively comprise the City of Cranston, Rhode Island's basic financial statements and have issued our report thereon dated December 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. We identified items 2010-1 through 2010-3 as deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

A *significant deficiency* is a deficiency, or a 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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City of Cranston, Rhode Island in a separate letter titled *Communication of Matters Prescribed by Statement on Auditing Standards #115* dated December 20, 2010.

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
March 15, 2011

A handwritten signature in black ink that reads "Braver, PC". The signature is written in a cursive, flowing style with a large, sweeping flourish at the end.

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, 2010. 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 2010-4 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, 2010.

Boston

Newton

Taunton

Concord

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 and other deficiencies that we consider to be significant deficiencies.

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 2010-4 to be a significant deficiency.

Schedule of Expenditures of Federal Awards

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 as a whole. The accompanying schedule of expenditures of federal awards is presented for 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 also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate 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
March 15, 2011, except for the paragraph
regarding the Schedule of Federal Awards
as to which the date is December 20, 2010



CITY OF CRANSTON, RHODE ISLAND

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010**

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, 2010, the following programs were considered major programs:

LEA Stabilization Grant.....	CFDA # 84.394
National School Lunch Program	CFDA # 10.555
National School Breakfast Program.....	CFDA # 10.553
National School Milk Program.....	CFDA # 10.556
IDEA Part B.....	CFDA # 84.027
ARRA IDEA.....	CFDA # 84.391
IDEA Preschool.....	CFDA # 84.173
ARRA IDEA Preschool.....	CFDA # 84.392
Title I.....	CFDA # 84.010
ARRA Title I.....	CFDA # 84.389
Perkins.....	CFDA # 84.048
Title II.....	CFDA # 84.367
Disaster Grant—Public Assistance.....	CFDA # 97.036
E2T2 MCI.....	CFDA # 84.318X
ARRA E2T2.....	CFDA # 84.386

CITY OF CRANSTON, RHODE ISLAND

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures Incurred</u>
<i>U.S. Department of Agriculture</i>		
Pass through State Department of Education:		
National School Lunch Program	10.555	\$ 1,285,962
National School Breakfast Program	10.553	220,550
National School Milk Program	10.556	796
ARRA Kitchen Equipment	10.579	23,500
<i>Total U.S. Department of Agriculture</i>		<u>1,530,808</u>
<i>U.S. Department of Housing and Urban Development</i>		
Direct Program:		
Community Development Block Grant	14.218	1,695,328
<i>Total U.S. Department of Housing and Urban Development</i>		<u>1,695,328</u>
<i>U.S. Department of Education</i>		
Pass through the State Department of Education:		
IDEA Part B	84.027	2,356,205
ARRA IDEA Part B	84.391	1,854,108
Special Education--Preschool	84.173	26,311
ARRA Special Education--Preschool	84.392	28,662
Title I	84.010A	2,093,217
ARRA Title I	84.389	1,242,255
Vocational Education	84.048A	47,130
Perkins LT Plan	84.048A	389,159
Perkins LT Plan Ext 6-7	84.048A	143,672
Perkins FCCLA	84.048A	14,989
Integrating Academics	84.048A	53,708
RI Skills USA- VICA	84.048A	138,308
Title III	84.365A	138,655
21st Century Community Learning	84.287C	193,955
PRIMES Grant Ext.	84.366B	32,179
PRIMES Grant Year 2	84.366B	276,448
Wallace Leadership Grant	N/A	5,500
Educational Technology--E2T2 MCI Ext.	84.318X	231,000
ARRA Educational Technology--E2T2 MCI	84.386	208,145
Title IV- Drug Free Schools	84.186A	59,994
ARRA SFSF LEA Stabilization	84.394	2,485,193
Title II A	84.367A	612,015
Adult Education--WIA Title II	84.002	302,900
<i>Total U.S. Department of Education</i>		<u>12,933,708</u>
<i>U.S. Department of Energy</i>		
Pass through the State of Rhode Island:		
Federal Energy Grant	81.128	81,374
<i>Total U.S. Department of Energy</i>		<u>81,374</u>

(CONTINUED)

CITY OF CRANSTON, RHODE ISLAND

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

<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:		
Centers for Medicare and Medicaid Services-SHIP	93.779	5,000
Title III Part B	93.044	67,125
<i>Total U.S. Department of Health and Human Services</i>		<u>72,125</u>
<i>U.S. Department of Homeland Security</i>		
Pass through the State of Rhode Island:		
Homeland Security Grant Program	97.067	340,822
Disaster Grant--Public Assistance (FEMA)	97.036	569,954
<i>Total U.S. Department of Homeland Security</i>		<u>910,776</u>
<i>U.S. Department of Transportation</i>		
Pass through the State of Rhode Island:		
Passport to Safety	N/A	15,367
Interagency Hazardous Materials	20.703	8,306
<i>Total U.S. Department of transportation</i>		<u>23,673</u>
<i>U.S. Department of Public Safety</i>		
Pass through the State of Rhode Island:		
Byrne JAG Grant	16.803	231,483
<i>Total U.S. Department of Labor</i>		<u>231,483</u>
<i>Total Expenditures of Federal Awards</i>		<u>\$ 17,479,275</u>

(CONCLUDED)

CITY OF CRANSTON, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

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. Three significant deficiencies in internal control over financial reporting have been identified and are described in Part B below as items 2010-1 through 2010-3 of the City of Cranston were disclosed during the audit. Items 2010-1 through 2010-3 are significant deficiencies which are considered to be material weaknesses.
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 are described in Part B below as item 2010-4.
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:

LEA Stabilization Grant.....	CFDA # 84.394
National School Lunch Program	CFDA # 10.555
National School Breakfast Program.....	CFDA # 10.553
National School Milk Program.....	CFDA # 10.556
IDEA Part B.....	CFDA # 84.027
ARRA IDEA.....	CFDA # 84.391
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Disaster Grant—Public Assistance.....	CFDA # 97.036
E2T2 MCI.....	CFDA # 84.318X
ARRA E2T2 MCI.....	CFDA # 84.386

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, 2010**

B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS

Current Year Findings:

- 2010-1:** During our audit of the City of Cranston, Braver PC identified and recorded several restatements of prior year balances that were discussed and approved by the City's Finance Department in order to properly reflect the June 30, 2009 balances in accordance with Generally Accepted Accounting Principles. As a result of our audit procedures we identified adjustments that were needed to properly present the balances of the allowance, Charter School activity, OPEB obligation, and fixed assets. These restatements resulted in an increase in net assets on the government wide financials by approximately \$1,900,000, an increase in net assets on the governmental financials by approximately \$2,200,000, an increase in net assets on the proprietary funds of approximately \$800,000 and a decrease in net assets on the non-major governmental financials by approximately \$600,000.
- 2010-2:** Governmental Accounting Standards Statement #34 requires governmental entities to prepare a government-wide financial statement utilizing the full accrual basis of accounting. Accordingly, the government-wide statements include all long-term debt obligations and capital assets of the governmental activities as well as those reported in the business-type activities. During our audit we noted that the City of Cranston (including the School Department) does not have adequate policies or procedures in place for maintaining and updating these records. The City does not maintain a general ledger to support outstanding balances of long-term debt obligations. As of June 30, 2010 the City was maintaining the capital asset records utilizing Excel spreadsheets. City personnel are utilizing spreadsheets to maintain the capital asset records and must review all financial activity at year end in an attempt to compile complete and accurate capital asset schedules. Upon audit of these capital asset records we noted that several capital asset acquisitions were incorrectly omitted from the June 30, 2010 balance. In our testing of fixed assets we noted several issues. One of the items we identified inconsistencies in was depreciation expense. The depreciation method being used by the City is not consistent with the City's disclosed policy. Some additions during this fiscal year had calculated depreciation expense for the full year and others calculated the expense monthly. Construction in process is not being placed into service upon completion of the project but instead when the last payment is made on the project. We noted two projects that were completed as of June 30, 2010 but remained in construction in process because the City was holding back the final payment in order to have the contractor make certain changes to the original work.
- 2010-3:** A sound internal control system includes policies and procedures which provide guidance for monitoring year end cut-off to ensure that financial activity is reported in the proper period. Based on our audit procedures we believe that the City has a significant deficiency in its ability to properly report all liabilities and revenue in the appropriate fiscal year. We noted instances where accruals at June 30, 2010 were not properly recorded. Failure to properly establish sound year end cut-off procedures increases the risk of financial statement misstatements from occurring and going undetected by management. In addition, these errors may have an adverse effect on management's ability to make sound financial decisions.

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CITY OF CRANSTON, RHODE ISLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

Current Year Findings:

2010-4: (1) IDEA Part B – CFDA #84.027, (2) ARRA IDEA – 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: \$15,725 for CFDA #84.027 and CFDA #84.391, \$27,000 for CFDA #84.010 and CFDA #84.389, \$7,150 for CFDA #84.048, and \$14,900 for CFDA #84.367.

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 will develop a review procedure whereby grant funded employees' time and effort is documented in compliance with Federal Laws and Regulations.

(CONTINUED)

CITY OF CRANSTON, RHODE ISLAND

**SUMMARY OF SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2010**

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

Prior Year Findings:

2009-5: National School Lunch Program – CFDA #10.555

Criteria:

The Cranston School Department receives federal funding passed through the RI Department of Education (RIDE) to support the school department's lunch program. Free and reduced lunches are provided to students deemed eligible based on a guideline centered on family household income and household size. During our audit we noted an elementary school that did not have reliable procedures in place to determine the number of free lunches provided on a daily basis. Therefore, the school is unable to ensure that for every free or reduced meal provided on a particular day there is a corresponding eligible student.

Status:

In response to the finding in fiscal year 2009 the Cranston School Department took corrective action and implemented a system whereby I.D. tokens are used to monitor the free and reduced lunches on a daily basis.

2009-6: National School Lunch Program – CFDA #10.555

Criteria:

The Cranston School Department does not have adequate controls in place to ensure that elementary school students receiving free and reduced lunches are in fact eligible to receive such meals.

Status:

In response to the finding in fiscal year 2009 the Cranston School Department took corrective action and implemented an effective system whereby I.D. tokens are used to monitor the free and reduced lunches on a daily basis.

(CONCLUDED)