

CITY OF CENTRAL FALLS, RHODE ISLAND

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

Year Ended June 30, 2010

CITY OF CENTRAL FALLS

YEAR ENDED JUNE 30, 2010

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CITY OF CENTRAL FALLS

SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor Pass-Through Grantor Program title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Type of Program	Expenditures
U.S. Department of Housing and Urban Development					
Economic Development Initiative	14.246	N/A	\$ 196,980		\$ 145,423
Governor's Office of Housing & Energy & Intergovernmental Relations					
Community Development Block Grants - Small Cities Program	14.228	9/4/2029	448,000	Major	209,899
Community Development Block Grants - Small Cities Program	14.228	8/8/2028	480,000	Major	182,037
Community Development Block Grants - Small Cities Program	14.228	07/04/27	448,500	Major	180,271
Community Development Block Grants - Small Cities Program	14.228	06/07/26	448,000	Major	20,000
Community Development Block Grants - Small Cities Program	14.228	5/4/2025	465,000	Major	45,002
Community Development Block Grants - Small Cities Program	14.228	4/4/2024	495,000	Major	12,584
Total U.S. Department of Housing and Urban Development			<u>2,981,480</u>		<u>795,216</u>
U.S. Justice Department					
Cops in School	16.710	N/A	426,664	Non-major	35,882
JAG grant	16.738	N/A	33,817	Non-major	15,338
JAG grant	16.738	N/A	11,720	Non-major	4,423
JAG grant	16.738	N/A	168,829	Non-major	140,492
JAG grant	16.738	N/A	40,934	Non-major	4,732
RI Governor's Justice Commission					
RIJC-SMCC	16.540	07-TITLE V-1	15,000	Non-major	15,000
RIJC- Middle School	16.540	07-JJDP - 11	48,000	Non-major	13,709
Edward Byrne Memorial Grant Program	16.548	2009-SUB9-0016	62,887		56,197
Total U.S. Department of Justice			<u>807,851</u>		<u>285,773</u>
U.S. Department of Homeland Security					
RI Emergency Management Agency					
State Homeland Security grant program	97.007	HS-4-8-FY08 UASI	1,385	Non-major	1,294
State Homeland Security grant program	97.007	4-8-FY07 UASI	150,000	Non-major	73,198
State Homeland Security grant program	97.007	HS-4-8-FY07 PSIC	26,849		26,849
Total U.S. Department of Homeland Security			<u>178,234</u>		<u>101,341</u>
U.S. Department of Transportation					
R.I. Department of Transportation					
Highway Safety Grant	20.614	07-00-0P	175,000	Non-major	175,000
Total U.S. Department of Transportation			<u>175,000</u>		<u>175,000</u>
U. S. Department of Health and Human Services					
Department of Elderly Affairs					
Senior Center	93.044	2121032	24,735	Non-major	24,735
Total U.S. Department of Health and Human Services			<u>24,735</u>		<u>24,735</u>
U.S. Department of Agriculture					
Rural Housing Service	10.776	N/A	56,983	Non-major	47,097
State of RI Department of Education					
School Lunch Program	10.559	RISF-04871	96,396	Non-major	96,396
Total U.S. Department of Agriculture			<u>153,379</u>		<u>143,493</u>
Total Federal Financial Assistance			<u>\$ 4,320,679</u>		<u>\$ 1,525,558</u>

CITY OF CENTRAL FALLS

**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 Central Falls. All federal awards received from federal agencies are included on the Schedule.

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 awards programs was based upon the overall level of expenditures for all federal programs for the *City of Central Falls*. 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 program was considered to be major programs:

CDBG	14.228
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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**

City of Central Falls
Central Falls, 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 Central Falls, Rhode Island as of and for the year ended June 30, 2010, which collectively comprise the City of Central Falls, Rhode Island's basic financial statements and have issued our report thereon dated February 16, 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

In planning and performing our audit, we considered the City of Central Falls' 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 Central Falls' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Central Falls' 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.

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 City of Central Falls' 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 (noted as items 2010-1 through 2010-3) to be material weaknesses.

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 Central Falls' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 also noted certain matters that we reported to management of the City of Central Falls in a separate letter dated March 31, 2011.

The City of Central Falls' responses to the findings, comments, and recommendations identified in our audit are described in a separate correspondence titled *Communications of Matters Prescribed by Statement on Auditing Standards #115* for the fiscal year ended June 30, 2010. We did not audit the City of Central Falls' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the City Council, management, others within the City, 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.

A handwritten signature in black ink that reads "Braver PC". The letters are cursive and somewhat stylized.

Providence, Rhode Island
February 16, 2011

**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**

City of Central Falls
Central Falls, Rhode Island

Compliance

We have audited the compliance of the City of Central Falls, Rhode Island with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Central Falls, Rhode Island's major federal programs for the year ended June 30, 2010. The City of Central Falls' 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 the City of Central Falls' management. Our responsibility is to express an opinion on the City of Central Falls' 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 Central Falls' 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 on the City of Central Falls' compliance with those requirements.

In our opinion, the City of Central Falls 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 Central Falls 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 Central Falls' internal control over compliance with 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, 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 Central Falls' 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the government activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the City of Central Falls, as of and for the year ended June 30, 2010 and have issued our Report thereon dated February 16, 2011 which contained unqualified opinion on the City of Central Falls' financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information had been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the City Council, management, others within the City of Central Falls and federal awarding agencies and pass-through entities and is not intended to be and should not be and should not be used by anyone other than these specified parties.

Brauer PC

Providence, Rhode Island

March 31, 2011 except for the schedule of expenditures of
Federal Awards as to which the date is February 16, 2011

CITY OF CENTRAL FALLS

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

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expressed an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Central Falls, Rhode Island.
2. Three deficiencies in internal control over financial reporting have been identified and are described in Part B below as items 2010-1 through 2010-3, all of which are considered to be material weaknesses
3. No instances of noncompliance material to the financial statements of the City of Central Falls were disclosed during the audit.
4. No significant deficiencies in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The auditor's report on compliance for the major federal award programs for the City of Central Falls expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the City of Central Falls are reported in Part C of this Schedule.
7. The programs tested as major programs include:

CDBG	14.228
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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 Central Falls qualifies as a low risk auditee.

B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS

Current Year Findings:

2010-1 *Timely Reconciliation of Accounts and Closing Procedures*

Our audit procedures for fiscal year ended June 30, 2010 revealed there was no systematic method of ensuring that timely and complete monthly reconciliation and closing procedures take place. This situation leads to a continuing and growing backlog of transactions and journal entries that are not posted into the accounting system in a timely manner, which limits the accounting information's usefulness in making well informed business decisions. This accounting function deficiency may ultimately cause significant errors in the financial records and financial statements, as well as allow possible irregularities, including fraud, to exist and continue without notice. During the course of our audit we noted that numerous work papers and information for the fiscal year ended June 30, 2010 were updated and obtained during our fieldwork. As a result of lack of timely account reconciliations and closing procedures, the fiscal 2010 audit could not be completed by the December 31st deadline.

CITY OF CENTRAL FALLS

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

B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS (Continued)

Recommendation

This situation should be corrected as soon as possible with the establishment of a system of consistent and timely monthly reconciliations and closing procedures.

Recently issued auditing standards require the independent audit firm to assess the City's capability to prepare financial statements in accordance with generally accepted accounting principles. These standards require City personnel to be responsible for the selection and implementation of appropriate accounting policies and internal controls, and possess the ability to complete the financial statements and required disclosures. During our audit, we noted that there was lack of controls over accounts payable and accrued expenses, resulting in approximately \$490,700 understatement of expenses related to accounts payable and approximately \$417,400 overstatement of payroll expense. Based on this and our observations throughout the audit, we believe that the City did not have adequate controls in place to ensure the completion of financial statements in accordance with generally accepted accounting principles for the fiscal year ended June 30, 2010.

Recommendation

We recommend that management review the current structure for completing and approving financial reports to ensure that there is an adequate procedure in place in which the financial statements and supporting documentation can be reviewed and approved by personnel who have the proper training, skills and knowledge of generally accepted accounting principles as they relate to government entities.

2010-2 *Maintenance of General Ledger*

During the fiscal year ended June 30, 2010, we noted that the City did not have adequate controls in place for reviewing and maintaining the general ledger accounting records on a periodic basis. At the commencement of the audit fieldwork management provided trial balances for the numerous funds maintained by the City. Upon initial review of these trial balances, we noted instances where the fund balance was not in agreement with the balance reported as of the end of the previous fiscal year. In addition, during the course of our audit, management provided multiple versions of certain trial balances. The lack of a completed and reconciled trial balance is an indication that the general ledger is not being reviewed and maintained on an ongoing basis.

Recommendation

We recommend that the City establish adequate internal control policies and procedures which will include provisions requiring the general ledger accounting records to be reviewed on a monthly basis by qualified personnel and ensuring that the financial records are accurate and up to date. When reviewing the general ledger trial balance report finance personnel should ensure that the fund balance agrees to the amount reported in the most recent audit report.

CITY OF CENTRAL FALLS

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

B. FINDINGS -- RELATED TO AUDIT OF FINANCIAL STATEMENTS (Continued)

2010-3 *Government-Wide Reporting*

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, compensated absences and capital assets of the governmental activities. During our audit we noted that the City of Central Falls has a control weakness in their policies and procedures for reconciling and updating these records. Upon audit of capital asset records maintained by the City, we noted an understatement of capital asset additions for fiscal year ended June 30, 2010 of approximately \$254,000. In addition, we noted an overstatement of accrued compensated absences liability of \$126,300.

Recommendation

We recommend that the City review their current policies and procedures for updating the general ledger accounting records and ensure that all long-term debt obligations and capital asset balances are properly captured and reported.

Prior Year Findings:

2009-1 *Timely Reconciliation and Closing Procedures*

Our audit procedures revealed there is no systematic method of ensuring that timely and complete monthly reconciliation and closing procedures take place. This situation leads to a continuing and growing backlog of transactions and journal entries that are not posted into the accounting system in a timely manner, which limits the accounting information's usefulness in making well informed business decisions. This accounting function deficiency may ultimately cause significant errors in the financial records and financial statements, as well as allow possible irregularities, including fraud, to exist and continue without notice. This situation should be corrected as soon as possible with the establishment of a system of consistent and timely monthly reconciliations and closing procedures.

Status: See current year finding 2010-1.

CITY OF CENTRAL FALLS

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

C. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

Current Year Findings:

None

Prior Year Findings:

There are no known but uncorrected findings and recommendations from prior audits that affect the current audit objective