TOWN OF ST. JOHNSBURY, VERMONT

AUDITOR'S REPORT

IN ACCORDANCE WITH OMB CIRCULAR A-133

DECEMBER 31, 2011

TOWN OF ST. JOHNSBURY, VERMONT
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Batchelder Associates, PC

INDEPENDENT AUDITOR'S 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 Board of Selectmen
Town of St. Johnsbury
St. Johnsbury, Vermont

Compliance

We have audited the Town of St. Johnsbury'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 Town of St. Johnsbury's major federal programs for the year ended December 31, 2011. The Town of St. Johnsbury'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 the Town of St. Johnsbury's management. Our responsibility is to express an opinion on the Town of St. Johnsbury'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 Town of St. Johnsbury'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 Town of St. Johnsbury's compliance with those requirements.

As described in items 2011-03, 2011-09, 2011-10, 2011-11 in the accompanying schedule of findings and questioned costs, the Town of St. Johnsbury did not comply with requirements regarding Allowable Costs and Cost Principles, Cash Management and Reporting that are applicable to its USDA, Federal Highway Administration and Homeland Security Major Programs. Compliance with such requirements is necessary, in our opinion, for the Town of St. Johnsbury to comply with the requirements applicable to those programs. In our opinion, except for the noncompliance described in the preceding paragraph, the Town of St. Johnsbury 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 December 31, 2011.

Internal Control Over Compliance

Management of the Town of St. Johnsbury 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 Town of St. Johnsbury'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 Town of St. Johnsbury's internal control over compliance.

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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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-01, 2011-03, 2011-04, 2011-05, 2011-06, 2011-07, 2011-08, 2011-09, 2011-10 and 2011-11 to be a material weaknesses.

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 all findings to be material weaknesses and not significant deficiencies.

The Town of St. Johnsbury'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 Town of St. Johnsbury's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Selectmen, others within the entity, 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.

Batchelder Associates, P.C.

Batchelder Associates, PC
May 3, 2012 (Updated March 4, 2013)
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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 Board of Selectmen
Town of St. Johnsbury
St. Johnsbury, Vermont

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of St. Johnsbury, Vermont as of and for the year ended December 31, 2011, which collectively comprise the Town of St. Johnsbury's basic financial statements and have issued our report thereon dated May 3, 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

In planning and performing our audit, we considered the Town of St. Johnsbury'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 Town of St. Johnsbury's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of St. Johnsbury'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; 2011-01, 2011-03, 2011-04, 2011-05, 2011-06, 2011-07, 2011-08, 2011-09, 2011-10 and 2011-11. 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. We consider all items to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of St. Johnsbury'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 items 2011-03, 2011-09, 2011-10 and 2011-11.

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We noted certain other matters that we reported to management of the Town of St. Johnsbury in a separate letter dated July 25, 2012. The Town of St. Johnsbury's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town of St. Johnsbury's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Selectmen, others within the entity, 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.

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May 3, 2012 (Updated March 4, 2013)
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TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2011

Federal Agency/ Program Title	Grant Number	Award Amount	CFDA Number	Federal Amount Expended
U.S Department of Agriculture				
Water & Waste Disposal Systems for Rural Communities Grants	VT-10	$ 2,059,000	10.76	$ 50,538
ARRA-Water & Waste Disposal Systems for Rural Communities Grants & Loans	VT-13	2,325,000	10.781	161,629
	VT-93-15	4,469,000	10.781	2,660,116
	VT-00-14	1,531,000	10.781	1,531,000
	VT-00-16	9,000,000	10.781	401,302
				4,754,047
Total U.S. Department of Agriculture				$4,804,585
U.S. Department of Homeland Security				
Homeland Interoperable Communications Grant	2007-GSH70031	$ 123,254	11.555	$ 123,254
State Homeland Security Grant	2008-GE-T8-0045	4,734	97.067	4,734
Federal Emergency Management Agency:				
Disaster Grants	FEMA 4001-DR-VT		97.036	471,370
State Homeland Security Grant	2008-GE-T8-0045	941	97.067	941
Total U.S. Department of Homeland Security				$ 600,299
U.S. Department of Justice				
Second Chance Act Adult and Juvenile Reentry Demonstration Projects	2010-CZ-BX-0028	$ 25,000	16.812	$ 13,214
Bulletproof Vest Grant	2010BUBX-10054294	2,740	16.607	2,587
Total U.S. Department of Justice				$ 15,801
U.S. Department of Transportation				
Pass-through from the State of VT Agency of Transportation:				
Highway Planning and Construction				
St. Johnsbury STP Bike (10)S	08126-CA0137	2,070,000	20.205	$ 1,078,867
Railroad St. Enhancement	STP-EH01 (25)	401,800	20.205	18,185
				$ 1,097,052
ARRA-Portland St. Bridge	ARTB009-300	1,615,000	20.205	161,721
Total U.S. Department of Transportation				$ 1,258,773

TOWN OF ST. JOHNSBURY, VERMONT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2011

Federal Agency/ Program Title (continued)	Grant Number	Award Amount	CFDA Number	Federal Amount Expended
U.S. Environmental Protection Agency				
Brownfields Assessment and Cleanup Cooperative Agreements	BF-96133401-0	$ 200,000	66.818	$ 13,199
U.S. Department of Public Safety				
Governor's Highway Safety Program	02140-0911-3546	$ 7,600	20.609	$ 7,518
Total Expenditures of Federal Grants				$ 6,700,175

Note I. Single Audit Reporting Entity

For the purposes of the Schedule of Federal Awards, federal awards include all grants and contracts entered into directly between the Town of St Johnsbury, Vermont and agencies and departments of the federal government and pass-through agencies. The awards are classified into major program categories in accordance with the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Note II. Summary of Significant Accounting Policies

A. Basis of presentation

The accompanying Schedule is in accordance with the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

1. Federal Award: Pursuant to the Single Audit Act and OMB Circular A-133, federal award means federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities. The Town receives direct federal awards and awards passed through the State of Vermont.

2. Federal Financial Assistance: In the Single Audit Act and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loan guarantees, property, interest, subsidies, insurance, or direct appropriations. Federal financial assistance does not include federal cash payments to individuals.

3. Major and Non-major Programs: OMB Circular A-133 establishes criteria for determining major programs and selecting those federal programs to be tested for compliance with program requirements. The major programs selected and tested for the Town of St. Johnsbury for the year ended December 31, 2011 were:

Federal Agency/Department	Program	CFDA
USDA	Water & Waste Disposal Systems for Rural Communities-American Recovery and Reinvestment Act	10.781
Federal Highway Admin	Portland Street Bridge- ARRA Three Rivers Bike Path	20.205
Homeland Security	FEMA – Disaster Recovery	97.036

B. Basis of accounting

The Town receives federal funds under various grant programs and records this activity in the proprietary and governmental funds using the basis of accounting of the reporting fund. The Town uses full accrual accounting for its proprietary fund and the modified basis of accounting for all governmental funds. The accompanying schedule of expenditures of federal awards reflects the basis of accounting of the funds used by the Town. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations.* Amounts reported in the accompanying Schedule agree in all material respects with the amounts reported in the related annual financial statements.

C. Sub-recipients

The Town of St. Johnsbury, Vermont provided no federal awards to sub-recipients for the year ended December 31, 2011.

A. Summary of the Audit Results

1. Type of report on the financial statements - unqualified opinion

2. Significant deficiencies were reported during the audit of the financial statements. Two of these reported as material weaknesses.

3. Instances of noncompliance material to the financial statements were disclosed during the audit.

4. Deficiencies relating to the audit of the major federal programs are reported in 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 Circular A-133.*

a. Material weaknesses identified
b. Significant deficiencies identified that are not considered to be material weaknesses: none.

5. Type of report on compliance for major programs-unqualified opinion.

6. Audit findings reported.

7. The programs tested as major programs are the Water & Waste Disposal Systems for Rural Communities – American Recovery and Reinvestment Act, CFDA 10.781, Portland Street Bridge/Bike Path, CFDA 20.205, and FEMA Disaster Recovery, CFDA 97.036.

8. Dollar threshold to distinguish between type A and type B programs - $300,000.

9. The auditee did qualify as a low risk auditee.

B. Findings- Financial Statement Audit

The following findings are required to be reported in accordance with OMB Circular A-133 and are reported in the accompanying schedule.

Material Weaknesses

2011-01. Financial Management

Condition: The Town has not established an adequate procedure to ensure authorized activity occurs regarding designations and/or reservations of fund balances.

Criteria: Generally accepted accounting principles require organizations to establish financial management procedures to ensure all financial activity authorized by the governing body occurs.

Cause: The basis of accounting used by management and governance is not fully understood by all personal in decision making authority.

Effect: Activity, such as designations of fund balance, authorized by the Select Board is not consistently accomplished.

B. Findings- Financial Statement Audit (continued)

Material Weaknesses (continued)

Recommendation: The Town should establish procedures to ensure that authorized activity is accomplished or that a change in the Town's plans is recorded, if circumstances exist requiring changes to an authorized plan.

Management response: Employee turnover in management positions has resulted in a lack of proper oversight of financial affairs. The town has included funding in its 2013 proposed budget to create a position of Finance Officer, and expects to fill the position beginning July 1, 2013. This position will be responsible for establishing and maintaining proper controls and procedures over accounting matters.

2011-02. Notes Receivable Monitoring

Condition: The Town does not adequately value or report all long-term notes receivable.

Criteria: Generally accepted accounting principles require organizations to record and report all financial assets at present value of long-term notes receivable.

Cause: The Town has not established procedures to ensure accuracy and monitoring of the collectability and value of long-term notes receivable.

Effect: Overstated assets for government-wide net assets on the Town's financial statements.

Recommendation: The Town should establish procedures to monitor the status and present value of all notes receivable.

Management response: Short staffing has resulted in inadequate monitoring of notes receivable. The new position of Finance Officer will provide a high level staff member to regularly monitor the status of loan repayments and follow up on collection efforts.

2011-03. Monitoring Financial Activity

Condition: The Town has not adequately developed procedures to ensure that governance and management can effectively monitor financial activity.

Criteria: Prudent management requires municipal governments to establish procedures that allow effective and timely decision making based on actual financial activity.

Cause: The Town has not established procedures to monitor balance sheet account balances and has not developed procedures to evaluate the amount of fund balance available for designation.

Effect: The financial statements are inaccurate during year from which proper controls cannot be maintained.

Recommendation: The Town should establish consistent procedures to monitor the status and value of all assets and liabilities and link the timing of decision making to these values.

Management Response: The lack of a financial management position has resulted in a failure to properly reconcile asset and liability accounts on a regular basis. One of the responsibilities of the new Finance Officer will be to ensure that monthly reconciliations are prepared and reviewed by responsible officials.

B. Findings- Financial Statement Audit (continued)

2011-04. General Journal Entries

Condition: General Journal entries are used in excess and are not consistently accompanied by supporting documentation.

Criteria: Generally accepted accounting principles require that organizations develop procedures that allow for the segregation of duties.

Cause: The Town has not established procedures to ensure that the accounting system is being used accurately and efficiently to avoid use of excessive journal entries.

Effect: General Journal entries without adequate controls and procedures lead to lack of control and segregation of duties.

Recommendation: The Town should establish procedures to efficiently use the accounting system so as not to need the use of excessive journal entries.

Management Response: Changes in personnel have resulted in the NEMRC accounting system not being used to its full potential. Additional training will be sought to more properly utilize the various modules of the system, which will result in fewer journal entries being required. In addition, with the addition of the position of Finance Officer, proper procedures can be put in place whereby proposed journal entries will be reviewed and approved by the Finance Officer before posting to the system.

2011-05. Monitoring Financial Disbursements

Condition: The Town has prepared and written checks in 2012 which were back dated to 2011.

Criteria: Prudent management requires municipal governments to establish procedures that allow effective, knowledgeable and timely decision making based on actual financial activity within the controls of the accounting structure.

Cause: The Town has not established procedures to structure the accounting system on an accrual basis of accounting, nor has the knowledge to understand how the internal controls should work.

Effect: The cash is materially understated at the end of the year. IRS reporting regarding Form 1099 reporting overstated.

Recommendation: The Town should establish consistent procedures to monitor the status and value of all assets and liabilities and link the timing of decision making to these values.

Management Response: Proper accounting for both payables and cash balances is crucial for proper financial reporting. Accrual accounting is necessary to ensure that expenses are reflected in the period in which they are incurred, and an accurate cut-off of dates of payment of those expenses is essential for reporting both cash balances and vendor payments. The town will establish procedures to properly utilize accrual accounting to record expenses.

2011-06. Monitoring Liabilities

Condition: The Town does not record liabilities until the date the checks are written regardless of time of service or date liability occurred.

B. Findings- Financial Statement Audit (continued)

2011-06. Monitoring Liabilities (continued)

Criteria: Prudent management requires municipal governments to establish procedures that allow effective, knowledgeable and timely decision making based on actual financial activity within the controls of the accounting structure.

Cause: The Town has not established procedures to structure the accounting system on an accrual basis of accounting, nor has the knowledge to understand how the internal controls should work.

Effect: Expenses and liabilities are materially understated at the end of the year.

Recommendation: The Town should establish consistent procedures to monitor the status and value of all assets and liabilities and link the timing of decision making to these values.

Management Response: Proper accounting for both payables and cash balances is crucial for proper financial reporting. Accrual accounting is necessary to ensure that expenses are reflected in period in which they are incurred, and an accurate cut–off of date of payments of those expenses is essential for reporting both cash balances and vendor payments. The town will establish procedures to properly utilize accrual accounting to record expenses.

2011-07. Monitoring Financial Statement Accounts

Condition: The Town does not use the segregation of general ledger chart of accounts and accumulation of expenses.

Criteria: Prudent management requires municipal governments to establish procedures that allow effective, knowledgeable and timely oversight of financial activity within the controls of the accounting structure.

Cause: The Town has not established procedures to structure the accounting system and use of chart of accounts for useful management information or segregation of costs. Therefore, many costs and revenues are collected in miscellaneous accounts which lead to under reporting of grant and project costs as well as a weakness in segregation of costs for management and oversight monitoring.

Effect: Revenue and Expenses cannot be tracked in natural groupings or monitored for reporting to the Board.

Recommendation: The Town should establish consistent procedures of postings to natural groupings of revenue and expense accounts which are both useful and meaningful to the reader and users of the financial reports.

Management Response: The town will review its chart of accounts for the various funds of the town and will adopt a more uniform chart of accounts as recommended by the Government Finance Officers Association.

B. Findings- Financial Statement Audit (continued)

2011-08. Lack of Knowledge

Condition: The Town's staff did not have the knowledge to accurately prepare financial reports and offer reconciled, meaningful financial reports to the Board.

Criteria: Prudent management requires municipal governments to staff knowledgeable personnel of whom can prepare, reconcile and complete financial reporting to the Town Manager and Board of Selectman.

Cause: The Town Manager and Board of Selectman did not have a staff that was qualified to be preparing financial information for management, grant reporting or reporting of accurate data.

Effect: Interim Financial Information was materially and significantly incorrect.

Recommendation: The Town should obtain staff who are knowledgeable with the accounting of municipal governments and have the necessary background to accumulate all data and financial records into meaningful and accurate data.

Management Response: The town has created a new position of Finance Officer. The person hired for this position will have the experience and qualifications necessary to be able to maintain the accounting records in accordance with generally accepted accounting principles, and prepare timely financial reports that accurately reflect the financial position and results of operations of the town.

2011-09. Grant Reporting

Condition: Grant reporting was inaccurate due to incorrect information in the accounting financial statements.

Criteria: Prudent management requires municipal governments to staff knowledgeable personnel of whom can prepare, reconcile and complete financial reporting to appropriate granting authorities.

Cause: The Town Manager and Board of Selectman did not have a staff who was qualified to be preparing or accumulating data regarding grants and required reporting.

Effect: Interim grant reports were incorrect.

Recommendation: The Town should implement a grant reporting process from the period of grant inception, including grant criteria, grant segregation in the chart of accounts, reporting and quarterly reconciliations.

Management Response: The town recognizes its weakness in grant administration. It is important that grants be properly administered from the time a grant is initially applied for. Proper administration involves obtaining an understanding of the terms of the grant, including eligible costs and activities, cost-sharing principles, and reporting requirements, as well as ensuring that reports that are submitted to grantor agencies correspond to the actual activity included in the financial statements. The Finance Officer will be responsible for grant administration in all departments.

B. Findings- Financial Statement Audit (continued)

Material Weaknesses (continued)

2011-10. Approving Grant Related Expenses

Condition: Invoices were approved and paid without required backup of direct travel or reimbursable expenses.

Criteria: Prudent grant management requires a reasonable approval process of invoices prior to payment. This approval includes review and accuracy of expenditures included in invoices.

Cause: The Town Manager and Board of Selectman did not have a staff who was qualified to be approving or reviewing invoices prior to payment.

Effect: Invoices as they related to grants were paid in excess of allowable amounts, including markup's on sub-contractor travel costs, overbilling of labor costs and excessive overtime costs to time and material costs versus lump sum costs portions of the contracts.

Recommendation: The Town should implement a grant reporting process which includes approval criteria, a strong understanding of the granting agencies requirements and knowledge of allowable costs to the individual grants being monitored and received.

Management Response: The town will implement procedures that will improve the approval process for grant expenses. A knowledgeable management employee will be responsible for making sure that expenses are proper and in accordance with contracts and agreements, and the Finance Officer will be responsible for making sure that costs are properly reflected in the accounts and financial report.

2011-11. Monitoring Grant Related Expenses

Condition: Invoices were approved and paid without regard to vendors contract or oversight of contract terms.

Criteria: Prudent grant management requires a reasonable approval process of invoices prior to payment, as well as a strong understanding of vendor charges and the financial relations to the contract.

Cause: The Town Manager paying a premium rate to vendor due to the nature of a contract which included both time and material and lump-sum portions.

Effect: All overtime labor costs were billed to time and material portion of contract versus lump-sum portion contract. This created an excessive increase to the time and material portion of contract while also creating an excessive hourly rate under the lump-sum portion of the contract.

Recommendation: The Town should implement a contract with vendors that does not include in both types of contracts one fee. Town should obtain a higher level of review and understanding of vendor invoicing to obtain a reasonable cost expectation and reasonable use of grantor's funds.

Management Response: The town will implement procedures that will improve the approval process for grant expenses. A knowledgeable management employee will be responsible for making sure that expenses are proper and in accordance with contracts and agreements, and the Finance Officer will be responsible for making sure that costs are properly reflected in the accounts and financial reports.