

TOWN OF LITTLE COMPTON, RHODE ISLAND

Management Letter

For the Year Ended June 30, 2015

TOWN OF LITTLE COMPTON, RHODE ISLAND

For the Year Ended June 30, 2015

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Honorable President and Members of the Town Council
Town of Little Compton
Little Compton, Rhode Island

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Town of Little Compton, Rhode Island (Town) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control 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 did not identify any deficiencies in internal control that we consider 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. We consider the deficiencies in Town's internal control presented on page 3 of this report to be a significant deficiency.

Continued

The Town's written response to the control deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management of the Town of Little Compton, the Town Council, Members of the School Committee, federal awarding agencies, and pass through entities, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the Town's personnel and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We appreciate the opportunity to serve you and we wish to express our gratitude and appreciation to the Town's personnel for their courteous and competent assistance during the audit.

Hague, Sabady & Co. PC

Fall River, Massachusetts
December 4, 2015

TOWN OF LITTLE COMPTON, RHODE ISLAND

Findings and Recommendations

Government-Wide Controls

1. Segregation of duties

During the audit it was noted that there were various duties (i.e. the collection and disbursement of funds, the recording of underlying transactions, signing of checks, deposits of cash receipts, reconciliation of bank statements, and the reconciliation of related activities) that were being completed by the same person which led to a determination that the Town should re-evaluate their segregation of duties. As in the case with many smaller size entities, inherent staff limitations make it difficult to provide these separations in a cost effective manner.

The Town's management has made significant strides in the last year by implementing mitigating controls. However, Management and the Town Council should continue to constantly be aware of the need for adequate separation of duties to have a proper internal control structure.

Recommendation

Although the Town has made great strides to implement policies of procedure to assist in segregation of duties deficiency, it is recommended that the Town continue to evaluate the duties of each employee for potential incompatible duties.

Management Response

Given the internal constraint on staffing and its effect on the overall budget, we will continue to evaluate the duties of both the Treasurer/Tax Collector and the Clerk in order to mitigate or eliminate the inherent risks concerning segregation of duties. With oversight by the Business Manager and the assistance of the School Business Manager, John McNamee, we continue to review the overall personnel structure of the Department, and the Town, and to look for ways of improving the procedures and mitigating risks.

TOWN OF LITTLE COMPTON, RHODE ISLAND

Findings and Recommendations (Continued)

Future Pronouncements

2. *Circular A-133 proposed changes*

OMB Circular A-133 Overview

OMB Circular A-133 (“the Circular”) is issued pursuant to the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996. Circular A-133 was most recently revised on June 26, 2007, and currently, the Office of Management and Budget (“OMB”) has approved final guidance for revisions to the Circular with the overall goal being to eliminate unnecessary and duplicative requirements and focus on areas that will achieve better outcomes at a lower cost. (see below “Changes to OMB Circular A-133”)

Circular A-133 sets forth a requirement that the OMB provides for the issuance of a compliance supplement. This assists in both the successful management of each program and a successful audit of the program by both the independent auditors and the Federal oversight agencies. The most current Circular A-133 Compliance Supplement was revised in March of 2013 and is effective for audits of fiscal years beginning after June 30, 2012, and supersedes the OMB Circular A-133 Compliance Supplement Dated June 2012. We anticipate another revision of the Compliance Supplement that will coincide with the single audit changes noted in a subsequent paragraph of this comment.

Changes to OMB Circular A-133

To deliver on the promise of a 21st-Century government that is more efficient, effective and transparent, the Office of Management and Budget (OMB) is streamlining the Federal government’s guidance on Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards changes to OMB Circular A-133 would include:

- *Single Audit Threshold for Audit to Increase to \$750,000* - entities that expend less than \$750,000 in federal awards would not be required to undergo a single audit (currently \$500,000)
- *Changes to the Major Program Determination Process - Type A/B Threshold* - minimum threshold for the Type A/B program determination would be changed from \$300,000 to \$750,000
- *Changes to the Major Program Determination Process - Type B Programs* - a reduction of the number of high-risk Type B programs that must be tested as major programs from at least one-half to at least one-fourth of the number of low-risk type A programs
- *Percentage of Coverage Changes* - the percentage of coverage required in single audit is reduced from the current 50% (normal) and 25% (low-risk) to 40% (normal) and 20% (low-risk auditees)
- *Revision of the Criteria for Low-Risk Auditee Status* - for example, changes will add a criteria that the auditor did not report a substantial doubt about the auditee’s ability to continue as a going concern.

TOWN OF LITTLE COMPTON, RHODE ISLAND

Findings and Recommendations (Continued)

Future Pronouncements

2. Circular A-133 proposed changes (continued)

Changes to OMB Circular A-133 (continued)

- *Reduction in Types of Compliance Requirement to be Tested* - the number of types of compliance requirements to be tested would be reduced from fourteen (14) to six (6) (this is not yet final but will be before a revised compliance supplement is released)
- *Findings* - more detail will be required to be reported in auditor findings. Questioned cost threshold is also increased from \$10,000 to \$25,000
- *Streamlining of Related Circulars and Guidance* - eight existing circulars would now become one circular
- *Administrative Requirements* - the goal is to update the process to better reflect the usage of current information technology.

This informational content was written as an additional client service to clarify the requirements surrounding Circular A-133 Single Audits as well as to make the Town aware of the guidance and revisions to Circular A-133.

Recommendation

It is recommended that management review the Circular A-133 Compliance Supplement noted above in order to identify existing important compliance requirements that the Federal Government expects to be considered as part of an audit required by the amendments to Circular A-133. Knowledge of the requirements within Circular A-133 (and the subsequent revision contained in Federal Register Vol. 78 No. 248) as well as the Circular A-133 Compliance Supplement can help the Town to potentially avoid audit findings in the future.

Relevant Internet Links

Copies of the OMB Circulars that are superseded by Federal Register Vol. 78 No. 248 are available on OMB's Web site at http://www.whitehouse.gov/omb/circulars_default/

Management's Response

The Town Business Manager has reviewed the Circular A-133 Compliance Supplement and the subsequent revision contained in the Federal Register and will communicate those requirements and changes to the Treasurer/Tax Collector and ensure we have the knowledge and awareness of those compliance requirements in order to avoid audit findings in the future.

TOWN OF LITTLE COMPTON, RHODE ISLAND

Status of Prior Year Comments

Government-wide controls:

- 1. Segregation of duties Repeated

All funds:

- 2. Fund balances Resolved

Treasurer's cash:

- 3. Cash reconciliation Resolved

General fund:

- 4. Accounts receivables with credit balances Resolved

Future pronouncements

- 5. Circular A-133 changes Repeated