

TOWN OF SMITHTOWN

SINGLE AUDIT REPORTS

Year Ended December 31, 2015

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TOWN OF SMITHTOWN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended December 31, 2015

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Program Expenditures	Expenditures to Subrecipients
U.S. Department of Housing and Urban Development			
Pass-through program from:			
Suffolk County, New York			
Community Development Block Grant	14.218	\$ 113,325	
Direct program from:			
Section 8 Housing Assistance Payment Program			
Section 8 Housing Choice Vouchers	14.871	1,232,678	\$ 1,232,678
PIH Family Self-Sufficiency Program	14.896	24,646	24,646
Subtotal U.S. Department of Housing and Urban Development		<u>1,370,649</u>	<u>1,257,324</u>
U.S. Department of Transportation			
Highway Planning and Construction	20.205	<u>102,924</u>	
Subtotal U.S. Department of Transportation		<u>102,924</u>	
U.S. Department of Health and Human Services			
Pass-through program from:			
Suffolk County, New York Office of the Aging			
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	42,678	
Nutrition Services Incentive Program	93.053	19,583	
Suffolk County, New York Office of Health Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>264,496</u>	
Subtotal U.S. Department of Health and Human Services		<u>326,757</u>	
U.S. Department of Homeland Security			
Pass-through program from:			
New York State:			
Disaster Grants - Public Assistance:			
Hurricane Sandy October 2012 - 4085-DR-NY	97.036	<u>2,727</u>	
Subtotal U.S. Department of Homeland Security		<u>2,727</u>	
U.S. Department of Interior			
Pass-through program from:			
New York State:			
Clean Vessel Assistance Program	15.616	<u>4,281</u>	
Subtotal U.S. Department of Interior		<u>4,281</u>	
Total Expenditures of Federal Awards		<u>\$ 1,807,338</u>	<u>\$ 1,257,324</u>

See accompanying notes to schedule of expenditures of federal awards.

TOWN OF SMITHTOWN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2015

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the Town of Smithtown, New York under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town of Smithtown, New York, it is not intended to and does not present the financial position or changes in net position of the Town of Smithtown, New York.

Note B – Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following either the cost principles contained in the Uniform Guidance or the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments* based on the grant award date. Generally, for grants (including funding increments with modified terms and conditions) awarded after December 26, 2014, such expenditures are recognized following the cost principles contained in the Uniform Guidance and for grant expenditures related to grants awarded prior to December 26, 2014, such expenditures are recognized following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*. The award date is based on the date the Federal award is signed by the authorized official of the Federal awarding agency.
- (2) The Town of Smithtown, New York has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.
- (3) Pass-through entity identifying numbers are presented where available.
- (4) Federal grants received by the Town are subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, the grantor agencies could make claims for reimbursement, which would become a liability of the Town.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Supervisor and Town Board
Town of Smithtown
Smithtown, New York

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Smithtown, New York, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town of Smithtown, New York's basic financial statements and have issued our report thereon dated August 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Smithtown, New York's internal control over financial reporting (internal control) to determine the 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 of Smithtown, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Smithtown, New York's internal control.

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 Town of Smithtown, New York's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, listed as item 2015-001.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Smithtown, New York's financial statements are free from 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*.

Town of Smithtown, New York's Response to Findings

The Town of Smithtown, New York's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Smithtown, New York's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Smithtown, New York's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Smithtown, New York's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Albert, Vignio, Zeh & Long P.C.

Hauppauge, New York
August 18, 2016



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Honorable Supervisor and Town Board
Town of Smithtown
Smithtown, New York

Report on Compliance for Each Major Federal Program

We have audited the Town of Smithtown, New York's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of Smithtown, New York's major federal programs for the year ended December 31, 2015. The Town of Smithtown, New York's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Smithtown, New York's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Smithtown, New York'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Smithtown, New York's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Smithtown, New York complied, in all material respects, with the types of 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, 2015.

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Report on Internal Control over Compliance

Management of the Town of Smithtown, New York is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Smithtown, New York's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Smithtown, New York's 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. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Smithtown, New York, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town of Smithtown, New York's basic financial statements. We issued our report thereon dated August 18, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Alvin, Vijay, Zak & Company P.C.

Hauppauge, New York
August 18, 2016

TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2015

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the basic financial statements of the Town of Smithtown, New York.
2. There is one significant deficiency relating to the audit of the basic financial statements reported in the "INDEPENDENT AUDITORS' 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*."
The deficiency reported is not considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of the Town of Smithtown, New York, which would be required to be reported in accordance with *Governmental Auditing Standards*, was disclosed during the audit.
4. There were no deficiencies relating to the audit of the major federal award programs reported in the "INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE."
5. The auditors' report on compliance for the major federal awards programs for the Town of Smithtown, New York expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) in this Schedule.
7. The program tested as a major program includes:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers

8. The threshold for distinguishing between Types A and B programs was \$750,000.
9. The Town of Smithtown, New York was determined to be a low-risk auditee.

TOWN OF SMITHTOWN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2015

FINDINGS – FINANCIAL STATEMENTS AUDIT

**2015-001 PAYROLL – SEGREGATION OF DUTIES - SIGNIFICANT DEFICIENCY
(REPEAT FINDING)**

Criteria

A good system of internal control provides for a proper segregation of the various accounting functions including proper review and approval of transactions and reconciliations.

Condition

During the audit, we noted that the payroll department has the ability to add employees, change pay rates and prepare a check run.

Effect

The Town payroll records could be altered without detection.

Recommendation

We recommend that the Town place additional controls throughout the payroll process to ensure that duties are properly segregated. This includes cross-training and cross-verification.

Views of Responsible Officials

The Town is in the process of installing a new payroll system which is expected to “go-live” in August 2016. This new payroll system will enable us to properly establish controls which will prevent the payroll department from adding employees, changing pay rates or preparing check runs. In preparation for use of the new payroll program, responsibility for adding employees and changing pay rates have been re-assigned in July 2016 to independent employees who have no access to the payroll program and beginning with the “go-live” date, responsibility for preparing check runs has been re-assigned such that payroll no longer is responsible for this function.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None.

TOWN OF SMITHTOWN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2015

SUMMARY OF PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

2014-001 AUTHORIZED SIGNERS - SIGNIFICANT DEFICIENCY (REPEAT FINDING)

Condition

During our audit, we noted that there is only one authorized signer on the Receiver of Taxes and Town Clerk bank accounts.

Recommendation

We recommend that the Town review and approve the authorized signers annually and consider adding an additional signer on all accounts.

Current Status

During 2015, both the Town Clerk and Receiver of Taxes added second authorized signers on accounts.

2014-002 FUND BALANCE POLICY - SIGNIFICANT DEFICIENCY (REPEAT FINDING)

Condition

During our audit, we noted that the Town did not have a fund balance policy.

Recommendation

The Town Board should adopt a fund balance policy incorporating the provisions of Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*.

Current Status

At the October 20, 2015 Town Board meeting, a Fund Balance policy was approved and adopted.

2014-003 BUILDING DEPARTMENT - SEGREGATION OF DUTIES - SIGNIFICANT DEFICIENCY (REPEAT FINDING)

Condition

During the audit, we noted the following related to the Building Department:

- At the end of each day, the clerks hand all cash and checks to the Senior Clerk Typist with a copy of all receipts and two system generated reports called Daily Fee Report and Daily Fee Report - Summary, along with the stack of applications that were submitted that day. However, there is no sign off on these reports performed by the clerks before submitting to the Senior Clerk Typist.

TOWN OF SMITHTOWN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2015

SUMMARY OF PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

2014-003 BUILDING DEPARTMENT - SEGREGATION OF DUTIES - SIGNIFICANT DEFICIENCY
(REPEAT FINDING) (continued)

Condition (continued)

- The Senior Clerk Typist reviews all information that is posted into MUNICIPALITY for each application that is submitted to the Building Department. This person additionally has the ability make adjustments to this information. In addition, there is no independent review of adjustments made.
- The Senior Clerk Typist prepares the deposit slips and deposits the money into bank after reviewing the Daily Fee Reports.

Recommendation

We recommend that the Town consider separating the accounting functions as described above to mitigate significant risks of error and/or misappropriation of the Town's assets. We recommend that another employee perform the step of preparing the deposit slip or bringing the money to the bank. Separating these duties will improve internal control over cash and other assets and reduce the possibility of errors and irregularities by limiting opportunities for employee fraud. Also, it is recommended that any adjustment in the system is properly reviewed and approved. In addition, the clerks in the Building Department should properly sign off on the Daily Fee Reports showing their reconciliation to the receipts collected.

Current Status

The Building Department made changes to its procedures during 2015, as noted in its departmental narrative, which addressed all findings.

2014-004 PAYROLL – SEGREGATION OF DUTIES - SIGNIFICANT DEFICIENCY
(REPEAT FINDING)

Condition

During the audit, we noted that the payroll department has the ability to add employees, change pay rates and prepare a check run.

Recommendation

We recommend that the Town place additional controls throughout the payroll process to ensure that duties are properly segregated. This includes cross-training and cross-verification.

Current Status

Comment will be repeated in the current year. No changes were made to the process during 2015, but with the implementation of a new payroll processing system planned for August 2016, payroll staff will no longer have access to employee "add or change forms".

TOWN OF SMITHTOWN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2015

SUMMARY OF PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

2014-005 PROCUREMENT - SIGNIFICANT DEFICIENCY (REPEAT FINDING)

Condition

During the audit we noted that the purchasing department does not accurately track aggregated vendor or commodity purchases.

Recommendation

We recommend that the Town ensure that all purchases are made in compliance with the Board adopted procurement policy and General Municipal Law and that all exceptions to the policy be documented on the payment package.

Current Status

In the last quarter of 2015, the Director of Purchasing and the Comptroller's Office collaborated in a process that addressed this finding and are continuing that process in 2016.

The process involves the preparation of a spreadsheet listing vendor disbursements for the year, then aggregating those disbursements by classification of work or commodity. Once this is done, the Director of Purchasing reviews the spreadsheet to determine which classifications have been bid and which require bidding.

2014-006 CASH DISBURSEMENT PROCESSING - SIGNIFICANT DEFICIENCY (REPEAT FINDING)

Condition

During the audit we noted the following deficiencies in regards to cash disbursement processing:

- 3 out of 25 items tested - the invoice was dated prior to the purchase order.
- 2 out of 25 selections - there was no departmental employee sign off that indicated that work performed or quantities received agree

Recommendation

We recommend that the Town follow cash disbursement policies and procedures, defining the necessary approvals and steps that need to take place for payment. These procedures should incorporate a requirement that the preparation and approval of purchase orders prior to procuring a good or service, the necessary support to be attached for payment, all approvals required prior to payment and all required review processes. In addition, all disbursements should be supported by proper purchase orders and invoices.

Current Status

As of February 2016, the Town has adopted a revised Procurement Policy which addresses all issues noted in these findings. In the fourth quarter of 2015, the Comptroller's Office required that invoices be signed by staff receiving a commodity or service.

TOWN OF SMITHTOWN
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2015

SUMMARY OF PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

2014-007 CAPITAL PROJECTS - SIGNIFICANT DEFICIENCY (REPEAT FINDING)

Condition

During our audit we noted the following deficiencies in relation to the capital projects fund:

- Large residual balances are maintained in the capital projects fund rather than being transferred back to the operating funds. In addition, operating funds continue to make annual transfers into this fund.
- Certain projects are over expended until revenues are received.
- Retainage was not withheld for the some of the capital projects that are in progress (namely Nichols Road). If something goes wrong with the project or if the Town is not satisfied with the project, the Town may have difficulty recovering the money. In addition, the Town is not accurately tracking and monitoring retainage payable and therefore not recording it on the books.
- The Town does not have a written capital improvement plan. A capital improvement plan is a short-range plan, usually 5 years, which identifies future capital projects and equipment purchases, providing a planning schedule and identifying options for financing the plan.

Recommendation

Once a capital project is completed, the Town should close the project and transfer any remaining funds to the operating funds and reserve, if applicable. If temporary financing (loan from operating fund) is needed until permanent financing is secured, it is recommended that this be approved by the Town Board. It is suggested that the Town adopt a capital improvement plan on an annual basis and that the plan is reviewed and approved by the Town Board. In addition, the Town should make sure that retainage is withheld for all construction-related projects and that the retainage payable is properly monitored and recorded on the Town's books.

Current Status

The Comptroller's Office continuously reviews capital projects throughout the year and has been successful in significantly reducing residual balances in 2014 and 2015.

While some of the Town's construction projects provided for retainage, all did not. Some contracts require a performance bond such as Nichols Road. We will notify the Purchasing Director that any and all construction contracts should contain a provision for retainage and/or a performance bond. In addition, a schedule is maintained for retainage withheld.

Lastly, the Town has adopted a long-term capital plan in 2015 which will enable the Town to properly plan capital expenditures.

SUMMARY OF PRIOR YEAR FINDINGS – SINGLE AUDIT

None.