

City of Ann Arbor,
Michigan



Year Ended
June 30, 2012

Single Audit Act
Compliance

CITY OF ANN ARBOR, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

December 12, 2012

To the Honorable Mayor and
Members of the City Council
City of Ann Arbor
Ann Arbor, Michigan

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 ***City of Ann Arbor, Michigan***, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements, and have issued our report thereon dated December 12, 2012. Our report includes a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



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CITY OF ANN ARBOR, MICHIGAN

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Agriculture				
Farm and Ranch Lands Protection Program	10.913	Direct	73-5D21-7-74	\$ 312,620
U.S. Department of Housing and Urban Development				
Community Development Block Grant Programs:				
Program year 2007/08	14.218	Direct	B-05-MC-26-0001	9,144
Program year 2008/09	14.218	Direct	B-05-MC-26-0001	53,870
ARRA Entitlement Grants	14.253	Direct	B-09-MY-26-0001	415
				<u>63,429</u>
Home Investment Partnership Program - Program year 2008/09	14.239	Direct	M-08-MC260201	2,250
Neighborhood Stabilization Program	14.256	Direct	NSP-08-0381-ENT	<u>373,951</u>
Total U.S. Department of Housing and Urban Development				<u>439,630</u>
U.S. Department of Justice				
Domestic Violence Supplemental Grant	16.590	Direct	2005-WE-AX-0087	<u>158,167</u>
Local Law Enforcement Block Grant:				
2009 Justice Assistance Grant	16.592	Direct	2009-DJ-BX-0138	26,001
2010 Justice Assistance Grant	16.592	Direct	2010-DJ-BX-1387	33,872
				<u>59,873</u>
Total U.S. Department of Justice				<u>218,040</u>
U.S. Department of Transportation				
Federal Railroad Administration's High Speed Intercity Passenger Rail Program	20.319	MDOT	FR-HSR-0066-11-01-00	25,574
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	SCAO	AL-12-02	<u>34,025</u>
Total U.S. Department of Transportation				<u>59,599</u>
U.S. Environmental Protection Agency				
Safe Drinking Water State Revolving Funds:				
Project # 7319-01	66.468	MDEQ	2F-00E751-01	236,772
ARRA - Project # 7319-01	66.468	MDEQ	2F-00E751-01	1,576,970
Project # 7333-01	66.468	MDEQ	n/a	4,409,458
Project # 7325-01	66.468	MDEQ	n/a	<u>207,733</u>
Total U.S. Environmental Protection Agency				<u>6,430,933</u>

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CITY OF ANN ARBOR, MICHIGAN

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Energy				
Transportation Technologies:				
Solar America Cities	81.041	MDCIS	DE-FC36-07GO17068	\$ 66,363
Energy Efficiency and Conservation Block Grant	81.128	MDCIS	DE-SC0001935	377,136
Total U.S. Department of Energy				<u>443,499</u>
U.S. Election Assistance Commission				
Qualified Voter File's Electronic Poll Book-Help America Vote Act	90.401	MBE	N/A	12,200
Qualified Voter File's Electronic Poll Book-Help America Vote Act	90.401	MBE	N/A	32,850
Total U.S. Election Assistance Commission				<u>45,050</u>
U.S. Department of Homeland Security				
2009 Emergency Management Performance Grant	97.042	MSP	N/A	3,957
2011 Emergency Management Performance Grant	97.042	MSP	EMW-2011-EP-00044-S01	28,802
Total U.S. Department of Homeland Security				<u>32,759</u>
U.S. Federal Emergency Management Agency				
Pre-Disaster Mitigation Grant	97.047	MSP	PDMC-PJ-05-MI-2009-004	191,432
Total Expenditures of Federal Awards				<u>\$ 8,173,562</u>
				Concluded

See notes to schedule of expenditures of federal awards.

CITY OF ANN ARBOR, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Ann Arbor, Michigan (the "City") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

The City's reporting entity is defined in Note 1 of the City's comprehensive annual financial report. The City's financial statements include the operations of the Ann Arbor Housing Commission, a discretely-presented component unit, which received federal awards that are not included in the Schedule for the year ended June 30, 2012, as this entity was separately audited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are presented on the modified accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. PASS-THROUGH AGENCIES

The City receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MBE	Michigan Bureau of Elections
MDCIS	Michigan Department of Commerce and Industry Services
MDEQ	Michigan Department of Environmental Quality
MDOT	Michigan Department of Transportation
MSP	Michigan State Police
SCAO	Michigan State Court Administrative Office

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**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**

December 12, 2012

To the Honorable Mayor and
Members of the City Council
City of Ann Arbor
Ann Arbor, Michigan

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 City of Ann Arbor, Michigan (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City, and have issued our report thereon dated December 12, 2012. Our report includes a reference to other auditors. 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

Management of the City of Ann Arbor, Michigan is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Ann Arbor, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Ann Arbor's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Ann Arbor, Michigan'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 another deficiency that we consider to be a significant deficiency.

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 deficiency described in the accompanying schedule of findings and questioned costs as 2012-FS-1 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as 2012-FS-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ann Arbor, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of City of Ann Arbor, Michigan in a separate letter dated December 12, 2012.

The City of Ann Arbor, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Ann Arbor, Michigan's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the audit committee, the City Council, others within the organization, 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, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 12, 2012

To the Honorable Mayor and
Members of the City Council
City of Ann Arbor
Ann Arbor, Michigan

Compliance

We have audited the City of Ann Arbor, Michigan'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 the City of Ann Arbor, Michigan's major federal program for the year ended June 30, 2012. The City of Ann Arbor, Michigan's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Ann Arbor, Michigan's management. Our responsibility is to express an opinion on the City of Ann Arbor, Michigan's compliance based on our audit.

The City's basic financial statements include the operations of the Ann Arbor Housing Commission, which expended \$13,117,908 in federal awards that is not included in the schedule of expenditures of federal awards for the year ended June 30, 2012. Our audit, as described below, did not include the operations of the Ann Arbor Housing Commission because an audit in accordance with OMB Circular A-133 for those activities was performed separately and a separate report was issued.

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 Ann Arbor, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Ann Arbor, Michigan's compliance with those requirements.

In our opinion, the City of Ann Arbor, Michigan complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City of Ann Arbor, Michigan 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 Ann Arbor, Michigan'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 City of Ann Arbor, Michigan'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.

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.

This report is intended solely for the information and use of management, the audit committee, the Board of Commissioners, others within the organization 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, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

CITY OF ANN ARBOR, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

 X yes

 no

Significant deficiency(ies) identified?

 X yes

 none reported

Noncompliance material to financial statements noted?

 yes

 X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 yes

 X no

Significant deficiency(ies) identified?

 yes

 X none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?

 yes

 X no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

66.468

Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:

 \$ 300,000

Auditee qualified as low-risk auditee?

 X yes

 no

CITY OF ANN ARBOR, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-1 - Preparation of the Schedule of Expenditures of Federal Awards

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. OMB Circular A-133, §__.300, requires that the City “identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.” In addition, the City is required to “prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §__.310”.

Condition. While management was able to provide us with a substantially complete schedule of expenditures of federal awards during our audit fieldwork, large adjustments were needed to one of the programs so that only the federal expenditure portions were reported on the schedule. These adjustments totaled approximately \$1.8 million.

Cause. A breakdown in communication between departments resulted in the total activity of a certain federal grant being shown on the schedule of expenditures of federal awards, rather than just the federal portion.

Effect. The activity shown for one of the federal grants included on the schedule of expenditures of federal awards included State-funded amounts. Adjustments were needed to adjust the activity for this grant so that only the federally funded portions of the grant were reflected on the schedule of expenditures of federal awards.

Recommendation. We recommend that the City take steps to ensure that only federally funded expenditures are reflected on the schedule of expenditures of federal awards.

View of Responsible Officials. Management agrees with the assessment that State funding can be Federal pass-through or State funds. We will change the reconciliation to include this breakout.

CITY OF ANN ARBOR, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-2 - Reconciliation of Subsidiary Ledgers

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. In order to determine whether balances in the general ledger are accurate, the City should perform periodic reconciliations of subsidiary ledgers to the related general ledger control accounts.

Condition. The general ledger amounts for certain utility receivable accounts did not agree or readily reconcile to the subsidiary detail.

Cause. This condition was caused by the absence of a standard procedure for reconciling subsidiary detail to the related control accounts.

Effect. As a result of this condition, the City's accounting records were initially misstated by amounts which in certain instances were significant to the financial statements. In addition, such unreconciled balances increase the risk that amounts may be materially misstated, whether by error or fraud, and remain undetected by management.

Recommendation. We recommend that the City reconcile all balance sheet accounts to subsidiary detail at least monthly, and follow-up on any variances in a timely manner. All such reconciliations should be independently reviewed, signed and dated, as evidence of this control.

View of Responsible Officials. Management agrees that the Public Services Financial Operations & Control Analyst should provide a monthly reconciliation to Finance for review and posting that includes the subsidiary reconciliation in the City's utility system, Cogsdale, as well as the reconciliation from the utility system to the City's financial system, Logos. This process will become effective immediately.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

CITY OF ANN ARBOR, MICHIGAN

Summary Schedule of Prior Federal Award Audit Findings For the Year Ended June 30, 2012

None reported

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