

City of Ann Arbor, Michigan

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2008

TABLE OF CONTENTS

June 30, 2008

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3-4
Notes to Schedule of Expenditures of Federal Awards	5
Schedule of Expenditures of Federal Awards Provided to Subrecipients	6-7
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	8-9
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	10-12
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	13-14

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Ann Arbor with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. The City of Ann Arbor'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 City of Ann Arbor's management. Our responsibility is to express an opinion on the City of Ann Arbor'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 Nonprofit 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'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 on the City of Ann Arbor's compliance with those requirements.

As described in items 2008-2 and 2008-3 in the accompanying Schedule of Findings and Questioned Costs, the City of Ann Arbor did not comply with requirements regarding program income and inspections that are applicable to its Community Development Block Grants program. Compliance with such requirements is necessary, in our opinion, for the City of Ann Arbor to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Ann Arbor complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City of Ann Arbor is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the City of Ann Arbor's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2008-2 and 2008-3 to be significant deficiencies.

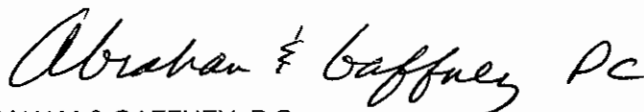
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2008-2 and 2008-3 to be material weaknesses.

The City of Ann Arbor'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's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregated discretely presented component units, and the aggregate remaining fund information of City of Ann Arbor as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise City of Ann Arbor's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Mayor, the members of the City Council of the City of Ann Arbor, 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.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 10, 2008

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Current Year</u>	
			<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE				
Natural Resources Conservation Service				
(Direct Program)				
Farm and Ranch Lands Protection Program	10.913	73-5D21-6-47	\$ 336,643	\$ 336,643
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
(Direct Program)				
Community Development Block Grants ^(a)	14.218			
Program year 2003/04		B-03-MC-26-0001	132	132
Program year 2004/05		B-04-MC-26-0001	27,998	27,998
Program year 2005/06		B-05-MC-26-0001	107,651	107,651
Program year 2006/07		B-06-MC-26-0001	250,635	250,635
Program year 2007/08		B-06-MC-26-0001	<u>955,978</u>	<u>955,978</u>
			1,342,394	1,342,394
(Direct Program)				
HOME Investment Partnerships Program ^(a)	14.239			
Program year 2004/05		M-04-MC260201	131,918	131,918
Program year 2005/06		M-05-MC260201	526,238	526,238
Program year 2006/07		M-06-MC260201	607,491	607,491
Program year 2007/08		M-06-MC260201	<u>296,211</u>	<u>296,211</u>
			<u>1,561,858</u>	<u>1,561,858</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			2,904,252	2,904,252
U.S. DEPARTMENT OF JUSTICE				
(Direct Program)				
Domestic Violence Grant	16.588	2005-WE-AX-0087	29,347	29,347
Domestic Violence Supplemental Grant	16.588	2005-WE-AX-0087	<u>29,477</u>	<u>29,477</u>
			58,824	58,824
(Direct Program)				
Local Law Enforcement Block Grants Program	16.592	2007-DJ-BX-0472	<u>24,000</u>	<u>24,000</u>
TOTAL DEPARTMENT OF JUSTICE			82,824	82,824

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Current Year</u>	
			<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF ENERGY (Direct Program)				
Transportation Technologies	81.041			
Solar America Cities		DE-FC36-07GO17068	\$ 11,322	\$ 11,322
Passed through Michigan Department of Commerce and Industry Services				
Transportation Technologies	81.041			
Energy Star Home		PLA-06-13	19,591	19,591
Methane Production from Bio-solids - WWTP		PLA-06-48	11,625	11,625
Clean Cities Challenge		PLA-06-38	7,800	7,800
Solar Water Heater Fire Station # 1		PLA-07-30	<u>6,000</u>	<u>6,000</u>
			<u>45,016</u>	<u>45,016</u>
TOTAL DEPARTMENT OF ENERGY			56,338	56,338
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Michigan State Police Emergency Management Division				
Homeland Security Grants ^(b)	97.004			
2006 Homeland Security CCP		N/A	7,768	7,768
2006 Homeland Security Conference		N/A	<u>1,823</u>	<u>1,823</u>
			9,591	9,591
Homeland Security	97.042			
SAP		N/A	37,550	37,550
Emergency Management ^(b)	97.067			
2007 Performance Grant		N/A	8,468	8,468
2008 Performance Grant		N/A	31,779	31,779
2006 FD Grant		N/A	<u>3,385</u>	<u>3,385</u>
			<u>43,632</u>	<u>43,632</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>90,773</u>	<u>90,773</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 3,470,830</u>	<u>\$ 3,470,830</u>

(a) Denotes program tested as "major program".

(b) Denotes programs required to be clustered by the United States Department of Homeland Security.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of Ann Arbor, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements, which are reconciled in Note B.

NOTE B: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the June 30, 2008 basic financial statements to the expenditures of the City administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/State Revenue</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT		
General Fund	\$ 3,385	\$ 3,385
Open Space and Parkland Preservation Millage Fund	336,643	336,643
Nonmajor governmental funds	<u>3,130,802</u>	<u>3,130,802</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 3,470,830</u>	<u>\$ 3,470,830</u>

NOTE C: ANN ARBOR HOUSING COMMISSION

The financial statements of the City of Ann Arbor includes the Ann Arbor Housing Commission, which expended more than \$500,000 in Federal awards. The Ann Arbor Housing Commission has a separate A-133 audit which is performed by other auditors and issued separately. Those Federal awards are not included in the City of Ann Arbor's Schedule of Expenditures of Federal Awards.

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS

Year Ended June 30, 2008

<u>Program Title/Subrecipient</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>(Memo Only) Prior Years' Expenditures</u>
Community Development Block Grants 2007-08	14.218			
Avalon Housing		B-07-MC-26-0001	\$ 75,000	\$ -
Child Care Network		B-07-MC-26-0001	170,000	-
Ozone House		B-07-MC-26-0001	47,000	-
Community Action Network		B-07-MC-26-0001	31,000	-
Legal Service of So. Central MI		B-07-MC-26-0001	73,000	-
			<u>\$ 396,000</u>	<u>\$ -0-</u>
HOME Investment Partnerships Program 2007-08	14.239			
Michigan Ability Partners		M-07-MC260201	\$ 5,856	\$ -
Homeplace Community Land		M-07-MC260201	6,494	-
Washtenaw Affordable Housing		M-07-MC260201	15,862	-
Avalon Housing		M-07-MC260201	19,059	-
			<u>\$ 47,271</u>	<u>\$ -0-</u>

<u>Balance July 1, 2007</u>			<u>Balance June 30, 2008</u>
<u>Due From/(To) Subrecipient</u>	<u>Cash Transferred to Subrecipient</u>	<u>Subrecipient Expenditures</u>	<u>Due From/(To) Subrecipient</u>
\$ -	\$ 75,000	\$ 75,000	\$ -0-
-	170,000	170,000	-0-
-	47,000	47,000	-0-
-	31,000	31,000	-0-
-	73,000	73,000	-0-
<u>\$ -0-</u>	<u>\$ 396,000</u>	<u>\$ 396,000</u>	<u>\$ -0-</u>
\$ -	\$ 5,856	\$ 5,856	\$ -0-
-	6,494	6,494	-0-
-	15,862	15,862	-0-
-	19,059	19,059	-0-
<u>\$ -0-</u>	<u>\$ 47,271</u>	<u>\$ 47,271</u>	<u>\$ -0-</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Ann Arbor, Michigan as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ann Arbor'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's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Ann Arbor's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Ann Arbor's financial statements that is more than inconsequential will not be prevented or detected by the City of Ann Arbor's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Ann Arbor's internal control.

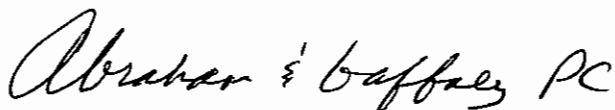
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ann Arbor'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 2006-1, and 2008-1.

The City of Ann Arbor'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's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Mayor, the members of the City Council of the City of Ann Arbor, the Federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Abraham & Gaffney PC". The signature is written in a cursive, flowing style.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 10, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2008

Section I - Summary of Auditor's Results**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X NoSignificant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reportedNoncompliance material to financial statements noted? _____ Yes X No**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? X Yes _____ NoSignificant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X Yes _____ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.239	HOME Investment Partnerships
14.218	Community Development Block Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ Yes X No**Section II - Financial Statement Findings****2006-1 USE OF CITY CREDIT CARDS**

Criteria: Compliance with City administrative policy. City administrative policy #512 provides (among other things) that documentation be maintained for all purchases, that purchases be made only for official City business, and that use of the City credit card does not exempt the user from compliance with Federal or State regulations as well as City ordinances, policies and procedures.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2008

Section II - Financial Statement Findings - continued

2006-1 USE OF CITY CREDIT CARDS - CONTINUED

Condition: During our testing of transactions related to the use of purchasing cards it was determined that the City did not comply with established administrative policy and financial management procedures. A similar condition was noted and reported in our audit comments last year. It was noted that:

- Several of the transactions sampled contained no explanation that would allow a user to determine that the purchase was made for official City business.
- Several of the transactions sampled were not properly supported with an invoice, receipt, or other appropriate documentation.

Effect: The City is not in compliance with administrative policy #512.

Recommendation: We recommend the City take steps to ensure that proper supporting documentation be obtained for all purchases and that the business purpose of all charges be clearly indicated.

Corrective Action Response: We agree with the recommendation and have made several improvements to the purchasing card program and policy during the last fiscal year. We are addressing issues with individuals to ensure full compliance in the future.

2008-1 PURCHASE OF TELEVISIONS FOR MAINTENANCE FACILITY

Criteria: Appropriate use of public funds, also compliance with City administrative policy #208 and #512.

Purchasing policy #208 calls for the following:

- All purchases over \$3,000 require the issuance of a purchase order and the approval of the Service Area Administrator.
- For "sole source" purchases, written documentation that a specified item cannot be obtained from any other source must be submitted.
- Purchases over \$10,000 require living wage and civil rights certifications.

Credit Card Policy #512 calls for the following:

- Applicable requirements of policy #208 must be followed.
- Purchases must not be split to circumvent procurement procedures

Condition: During the performance of our audit procedures and inquiries related to purchasing card use, it came to our attention that certain employees at the City maintenance facility had purchased eleven (11) flat-screen televisions for use at the facility. Also purchased were several DVD players, HDMI cables, and custom installation services. These purchases were not approved in advance by the Service Area Administrator. The purchases were made using the City credit cards of several employees and arranged in such a way that they would not exceed applicable credit limits on the cards.

Effect: These purchases appear to be an inappropriate use of public funds. Also, the City is not in compliance with administrative policies #208 and #512.

Recommendation: We recommend that all such purchases be discontinued in the future. We recommend City evaluate the ongoing need for and business purpose satisfied by these items.

Corrective Action Response: Management understands the auditors' concerns and wants to reiterate our commitment to complying with all policies. We have re-educated staff and clearly communicated to the involved employees the importance of adhering to financial policies, as they are a key component in our effort for transparency in government. Management believes we have appropriately addressed this issue and it will not occur in the future.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2008

Section III - Federal Award Findings and Questioned Costs

2008-2 INSPECTIONS

Community Development Block Grants/Small Cities Program (Direct Program) - CFDA 14.218

Criteria: When CDBG funds are used for rehabilitation, the grantee must assure that the work is properly completed (24 CFR section 570.506).

Condition: For rehabilitation projects, inspections to ensure that work is properly completed are not documented.

Effect: When these inspections are not documented the grantee cannot prove that they were performed.

Recommendation: We recommend that the Community Development office evaluate its procedures in this area and take steps to ensure that all inspections are properly documented.

Corrective Action Response: We concur with the recommendation of the auditor. Staff met on December 4, 2008 to discuss the new procedures for documenting progress inspections on single-family and multi-family rehabilitation projects. Effective immediately, we have created an Inspection/Progress Report that is generated through One Roof as bids are awarded for projects. The Inspection/Project report will list the bid specifications, date inspected, and signature of the inspector. The report will be signed and dated by each inspector and used as a tool to verify the completion of the work submitted by the contractors prior to approving the request for payment. The report has been added to the checklist of final documentation that is required by staff to close out a rehabilitation project.

2008-3 PROGRAM INCOME

Community Development Block Grants/Small Cities Program (Direct Program) - CFDA 14.218

Criteria: Grantees must accurately account for any program income generated from the use of CDBG funds and must treat such income as additional CDBG funds which are subject to all program rules (24 CFR section 570.504).

Condition: The Community Development office could provide no documentation of a draw that was selected for testing. This draw was claimed as a usage of program income for project purposes.

Effect: The auditors were not able to verify that program income was used for CDBG purposes and was done so before additional federal funds were drawn.

Recommendation: We recommend that the Community Development office evaluate its procedures in this area and take steps to ensure that proper documentation of the use of program income is present for all transactions.

Corrective Action Response: We concur with the recommendation of the auditor. Moving forward, CD fiscal staff will change its internal practices to ensure program income is drawn each month on eligible activities in accordance with the federal regulations for the CDBG and HOME programs. In addition, total program income received will continue to be reported in AMS Financial and will be drawn during the grant activity period. The eligible uses of program income include acquisition, rehabilitation and preservation activities, and planning activities. All documentation with respect to the monthly reimbursement requests to HUD will identify the eligible use of program income.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2008

Financial Statement Findings

2007-1 FRAUD RISK MANAGEMENT PROGRAM

In 2007, we noted that the City had not developed or implemented a fraud risk management program that was appropriate to the size and complexity of the entity. During the current year the City implemented an appropriate fraud risk management program. This finding is considered to be resolved.

2007-2 PERFORMANCE DEPOSITS AND TREE ESCROW DEPOSITS

In 2007, we noted that the City held excessive amounts as performance deposits and tree escrow deposits that were collected as security for satisfactory completion of certain projects. These amounts were recorded as cash and liabilities of the General Fund. During our review of documentation for these deposits, we noted that some of the performance deposits went back as far as the 1980's and some of the tree escrow amounts went back as far as 1997. During the current year the City closed out many of these deposits. We also noted that the dollar amount and average age of the deposits improved considerably. This finding is considered to be resolved.

2007-3 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

In 2007, material journal entries for the proper recognition accounts payable, capital assets, and beginning fund balance were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the City's general ledger. Similar misstatements were not noted during the performance of current year audit procedures. This finding is considered to be resolved.

2007-4 COMMUNICATION WITH DOWNTOWN DEVELOPMENT AUTHORITY (DDA)

In 2007, we noted there was no line of communication currently in place to ensure that all capital asset purchases made by the DDA were recorded as capital assets in the City's financial statements. Material assets purchased by the DDA may have been missing from the City's financial statements. In the current year the DDA provided the City with a listing of capital outlay expenditures to be considered for inclusion in the City's financial statements as capital assets. This finding is considered to be resolved.

2007-5 UNFAVORABLE BUDGET VARIANCES

In 2007, we noted some of the budgeted activities of the City exceeded the amounts appropriated. The variances noted were in the General Fund and two (2) Special Revenue Funds. In the current year we noted that expenditures in excess of amounts appropriated were not material. This finding is considered to be resolved.

2006-1 USE OF CITY CREDIT CARDS

In 2006, testing related to the use of City credit cards, we noted several instances where documentation was missing, transactions without a documented business purpose, unrestricted cards not properly approved, and purchases made that violated applicable State requirements. This was reported as a violation of the City's financial management policies and procedures. In 2007, we noted that documentation was available for all purchases sampled and that unrestricted cards had been properly approved. We noted in our current audit testing, however, that the business purpose of certain transactions had again not been documented and that documentation for certain transactions was again missing. Additionally, we noted that the exceptions seemed to be concentrated within some of the same service units where problems have been found in the past. In 2008, we noted that the City had adopted an acceptable policy for purchases that violated applicable State requirements concerning lawful expenditures given by the Michigan Department of Treasury. This finding is partially repeated in the current year Schedule of Findings and Questioned Costs.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED

Year Ended June 30, 2008

Financial Statement Findings - Continued

2006-2 UNLAWFUL EXPENDITURES

In the prior year, it was noted that purchases for meals and employee recognition had been made in violation of guidance concerning lawful expenditures given by the Michigan Department of Treasury. During our current year audit testing, we noted that the City had adopted an acceptable policy for purchases that previously violated applicable State requirements. This finding is considered to be resolved.

2006-3 REIMBURSEMENT OF EMPLOYEE INCOME TAXES ON FRINGE BENEFITS

In 2006, it was noted that an employee had been reimbursed for income taxes that were incurred as a result of certain fringe benefits provided under that employee's contract with the City. The employment contract did not specify, however, that the employee was entitled to reimbursement of income taxes incurred. In 2007, it was noted that the employee's contract was amended to allow reimbursement of income taxes that result from these benefits. This finding was considered to be resolved in 2007.

Federal Award Findings and Questioned Costs

2006-4 SUPPORTING DOCUMENTATION FOR EXPENDITURES

In 2006, it was noted that the City did not comply with established financial management procedures for purchases of equipment for the State Domestic Preparedness Equipment Support Program. This was reported as a violation of the City's financial management procedures. During 2007 audit testing we noted that the City had complied with established procedures. This finding was considered to be resolved in 2007.

2006-5 HOUSING QUALITY INSPECTIONS

In 2006, it was reported that the City did not provide adequate inspection procedures or some of the applicable rental properties within the HOME Investment Partnerships Program. This was reported as a violation of Special Tests and Provisions compliance requirements under OMB Circular A-133. During 2007 audit testing we noted the City had performed the required inspections. This finding was considered to be resolved in 2007.

2006-6 PROCUREMENT, SUSPENSION AND DEBARMENT

In 2006, it was reported that the City did not provide the required verification of whether subrecipients had been suspended or debarred from entering into Federally funded contracts. It was also noted that no procedures were in place to verify that procurement transactions were not being entered into with parties that had been suspended or debarred. This was reported as a violation of suspension and debarment verification requirements of OMB Circular A-133. During 2007 audit testing we noted the City had established proper procedures and had verified that subrecipients were not suspended or debarred from entering into Federally funded contracts. This finding was considered to be resolved in 2007.