

City of Ann Arbor, Michigan

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

June 30, 2010

City of Ann Arbor, Michigan

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

To the 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 each of the City of Ann Arbor's major federal programs for the year ended June 30, 2010. 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. 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 of the City of Ann Arbor's compliance with those requirements.

In our opinion, the City of Ann Arbor complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the City of Ann Arbor 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'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 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's internal control over compliance.

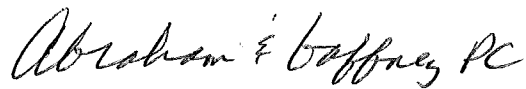
A deficiency in internal control over compliance exists when the design of operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 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.

Schedule of Expenditures of Federal Awards

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, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the 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 Honorable Mayor and members of the City Council, others within the City, 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 17, 2010

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2010

<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 ^(a)	10.913	73-5D21-7-74	\$ 1,030,500	\$ 1,030,500
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
(Direct Programs)				
Community Development Block Grants ^{(a)(b)}	14.218			
Program year 2004/05		B-04-MC-26-0001	74,222	74,222
Program year 2005/06		B-05-MC-26-0001	527	527
Program year 2006/07		B-06-MC-26-0001	112,194	112,194
Program year 2007/08		B-07-MC-26-0001	6,749	6,749
Program year 2008/09		B-08-MC-26-0001	<u>374,241</u>	<u>374,241</u>
			567,933	567,933
Community Development Block Grants	14.228			
MSHDA NSP		NSP-08-0381-ENT	160,162	160,162
Community Development				
Block Grants - ARRA ^{(a)(b)}	14.253			
CDBG - R		B-09-MY-26-0001	73,086	73,086
HOME Investment Partnerships Program	14.239			
Program year 2004/05		M-04-MC260201	65,851	65,851
Program year 2005/06		M-05-MC260201	12,080	12,080
Program year 2006/07		M-06-MC260201	18,984	18,984
Program year 2007/08		M-07-MC260201	118,226	118,226
Program year 2008/09		M-08-MC260201	<u>139,082</u>	<u>139,082</u>
			<u>354,223</u>	<u>354,223</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			1,155,404	1,155,404
U.S. DEPARTMENT OF JUSTICE				
(Direct Programs)				
Domestic Violence Supplemental Grant	16.588	2005-WE-AX-0087	166,741	166,741
Local Law Enforcement Block Grants	16.592			
2008 Justice Assistance Grant		2008-DJ-BX-0189	6,283	6,283
2009 Justice Assistance Grant		2009-DJ-BX-0138	<u>40,881</u>	<u>40,881</u>
			<u>47,164</u>	<u>47,164</u>
TOTAL DEPARTMENT OF JUSTICE			213,905	213,905

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2010

<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. ENVIRONMENTAL PROTECTION AGENCY				
Passed through State of Michigan Department of Environmental Quality				
Drinking Water State Revolving Funds ^(a) DWRF - ARRA	66.468	2F-00E751-01	\$ 2,124,736	\$ 2,124,736
U.S. DEPARTMENT OF ENERGY				
(Direct Program)				
Transportation Technologies Solar America Cities	81.041	DE-FC36-07GO17068	65,775	65,775
Passed through Michigan Department of Commerce and Industry Services				
Transportation Technologies Biodiesel Fueling Station Biodiesel Production	81.041	MDOT-2007-0762 PLA-05-10	47,288 <u>29,918</u>	47,288 <u>29,918</u>
			<u>77,206</u>	<u>77,206</u>
TOTAL DEPARTMENT OF ENERGY			142,981	142,981
ELECTION ASSISTANCE COMMISSION				
Passed through State of Michigan Bureau of Elections				
Voting Access - Help America Vote Act 2009 Program Grant	93.617	N/A	1,100	1,100
Voting Access for Individuals with Disabilities 2009 Program Grant	93.617	N/A	<u>9,728</u>	<u>9,728</u>
TOTAL ELECTION ASSISTANCE COMMISSION			10,828	10,828
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Michigan State Police Emergency Management Division				
Homeland Security Grants 2009 EMP Grant	97.042	N/A	<u>29,893</u>	<u>29,893</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 4,708,247</u>	<u>\$ 4,708,247</u>

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

(b) Denotes program required to be clustered by the United States Department of Housing and Urban Development.

City of Ann Arbor, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2010

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, 2010 basic financial statements to the expenditures of the City administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal Grant Revenue</u>	Add: Capital Contributions <u>Water Supply System Fund</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT Nonmajor governmental funds	<u>\$ 2,583,511</u>	<u>\$ 2,124,736</u>	<u>\$ 4,708,247</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.

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

To the 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, 2010, which collectively comprise the City of Ann Arbor, Michigan's basic financial statements and have issued our report thereon dated December 17, 2010. We did not audit the financial statements of the Ann Arbor Housing Commission (discretely presented component unit) which represents 40 percent and 44 percent of the assets and revenues, respectively, of the aggregate discretely presented component units. Those financial statements were audited by other auditors who report thereon has been furnished to us, and our opinion, insofar as they relate to the amounts included for the City of Ann Arbor, Michigan, are based solely on the reports of the 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

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, Michigan'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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying schedule of findings as 2010-1 that we consider to be a significant deficiency in internal control over financial reporting.

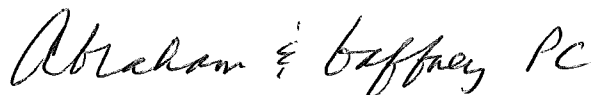
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Ann Arbor's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City of Ann Arbor's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Honorable Mayor and members of the City Council, others within the City, 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 cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 17, 2010

City of Ann Arbor
 SCHEDULE OF FINDINGS
 Year Ended June 30, 2010

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 No

Significant deficiencies identified that are not considered to be material weakness(es)? 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 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: Unqualified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.913	Farm and Ranch Lands Protection Program
14.218, 14.253	Community Development Block Grant Cluster
66.468	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? _____ Yes X No

Section II - Financial Statement Findings

2010-1 USE OF CITY PURCHASING CARDS

Condition: During our analysis of internal controls over the purchasing card process we noted that the City does not appear to be in compliance with established administrative policy and financial management procedures or applicable laws of the State of Michigan. It was specifically noted that five of the twenty transactions sampled contained no purchasing card statement listing the details of the transactions that occurred during the month. The receipts detailing the purchases and the appropriate business purpose pertaining to these statements were also missing. Credit card payments are made by the City on a monthly basis so the City had paid for these transactions without ever reviewing the statement or any supporting receipt to authorize the purchase and determine that there was a business purpose for the transaction.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended June 30, 2010

Section II - Financial Statement Findings - continued

2010-1 USE OF CITY PURCHASING CARDS - CONTINUED

Criteria: City administrative policy #512 provides (among other things) that documentation be maintained for all purchases including purchasing card transactions, that all 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. Michigan Public Act 266 of 1995 requires submission of documentation that details the goods or services purchased, the costs of the goods or services, the date of purchase, and the official business use. This law also requires the governmental unit to approve purchases prior to payment.

Effect: When the City does not receive the individual credit card statements along with sufficient supporting documentation to approve the purchases prior to payment, these are violations of administrative policy #512 and Michigan Public Act 266 of 1995. Unlawful purchases could potentially be made without the City having any knowledge of these purchases. The City also has the potential to pay for expenses that do not have a clearly stated business purposes.

Recommendation: We recommend that the City require all departments to submit their credit card statements along with receipts and the documented business purposes to the Accounting Department, on a timely basis each month, for all purchases made using City purchasing cards. We also recommend the Accounting Department review purchases prior to paying the purchasing card statement.

Corrective Action Response: Management concurs with the recommendation that statements and back-up documentation should be provided on a monthly basis, and management will take steps necessary to insure this requirement is complied with. However a cardholder's supervisor or Service Area Administrator is responsible for signing off on the purchases prior to it being sent to Accounting because they are responsible for insuring their employee's cards are being utilized appropriately. The card program is a Purchasing Card program administered by JP Morgan/Chase and not a Credit Card program. One aspect of the program is that the bank automatically draws the funds for the charges on or about the 4th day of the month. The City has 60 days to notify the bank if there are incorrect charges or activity on the account. In instances where incorrect activity has occurred, the bank has held the City harmless. This program continues to be a beneficial procurement process for the City, so the appropriate efforts will be made to insure the reviews, approvals, and document retention requirements are followed.

Section III - Federal Award Findings and Questioned Costs

None noted

City of Ann Arbor

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2010

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.