

**CITY OF ANN ARBOR,
MICHIGAN**

SINGLE AUDIT

For the Year Ended June 30, 2005



REHMANN ROBSON

Certified Public Accountants

**CITY OF ANN ARBOR, MICHIGAN
SINGLE AUDIT**

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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**

October 21, 2005

Honorable Mayor and Members
of the City Council
City of 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, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 21, 2005. We did not audit the financial statements of the Ann Arbor Housing Commission, which represents 34% of the assets and 47% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report was furnished to us, and our opinion, insofar as it relates to the amounts included for the Ann Arbor Housing Commission, is based solely on the report 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's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the *City of Ann Arbor, Michigan* in a separate letter dated October 21, 2005.

This report is intended solely for the information and use of the audit committee, management, the City Council, others within the organization, and 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.

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

October 21, 2005

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

Compliance

We have audited the compliance of the *City of Ann Arbor, Michigan* 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, 2005. The *City of Ann Arbor, Michigan's* major federal programs are 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 each of its major federal programs 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.

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 provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the *City of Ann Arbor, Michigan's* compliance with those requirements.

As described in item 2005-1 in the accompanying schedule of findings and questioned costs, the City of Ann Arbor did not comply with requirements regarding reporting that are applicable to its Home Investment Partnership Program. Compliance with such requirements is necessary, in our opinion, for the City of Ann Arbor to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the *City of Ann Arbor, Michigan* 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, 2005.

Internal Control Over Compliance

The management of the *City of Ann Arbor, Michigan* 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, Michigan's* internal control over compliance with 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the matter referred to above, we did not consider finding 2005-1 to be a material weakness.

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, Michigan* as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 21, 2005. We did not audit the financial statements of the Ann Arbor Housing Commission, which represents 34% of the assets and 47% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report was furnished to us, and our opinion, insofar as it relates to the amounts included for the Ann Arbor Housing Commission, is based solely on the report of the other auditors.

Our audit was performed 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 OMB Circular A-133 and is not a required part of the 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 the audit committee, management, others within the organization, City Council, and 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.

City of Ann Arbor
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2005

Federal Grantor/ Program Title	Federal CFDA Number	Project Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Direct Program:			
Community Development Block Grant Program:	14.218		
Program year 2003/04		B-03-MC-26-0001	\$ 399,561
Program year 2004/05		B-04-MC-26-0001	906,558
Total Community Development Block Grant			<u>1,306,119</u>
Direct Program:			
Home Investment Partnership Program	14.239		
Program year 1998/99		M-98-MC260201	25,077
Program year 1999/00		M-99-MC260201	444,150
Program year 2000/01		M-00-MC260201	236,139
Program year 2001/02		M-01-MC260201	306,750
Program year 2002/03		M-02-MC260201	470,183
Program year 2003/04		M-03-MC260201	290,957
Program year 2004/05		M-04-MC260201	269,727
Total Home Investment Partnership Program			<u>2,042,983</u>
Total U.S. Department of Housing and Urban Development			<u>3,349,102</u>
U.S. Department of Justice			
Passed through the State of Michigan			
Michigan State Police:			
2003-2005 SHSGP Training Grant	16.007	n/a	16,250
2004-2005 SHSGP SAP Grant	16.007	n/a	31,125
Total Emergency Management Division			<u>47,375</u>
Passed-through the State of Michigan,			
Department of Community Health			
Office of Drug Control Policy:			
Local Law Enforcement Block Grant	16.592	2004-LB-BX-0931	26,849
Local Law Enforcement Block Grant		2003-LB-BX-1787	55,248
Total Local Law Enforcement Block Grant			<u>82,097</u>
Total U.S. Department of Justice			<u>129,472</u>
U.S. Department of Energy			
Passed through the State of Michigan,			
Department of Commerce & Industry Services:			
Transportation Technologies-	81.041		
Clean Cities Program Incentive		PLA-04-15	2,700
Clean Cities Assistant		PLA-05-40	18,110
Total U.S. Department of Energy			<u>20,810</u>

City of Ann Arbor
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2005

Federal Grantor/ Program Title	Federal CFDA Number	Project Number	Federal Expenditures continued...
Federal Emergency Management Agency			
Passed through the State of Michigan			
Emergency Management Division:			
02 State Disaster \$50K Preparedness Prog	97.004	n/a	\$ 2,498
03 SHSGP RRT Mass Decontamination	97.004	n/a	100,450
Flood Mitigation Plan - Technical Assistant	97.029	EMC-2003-GR-7041	9,113
Flood Mitigation Plan - Planning	97.029	EMC-2003-GR-7041	5,056
Total Emergency Management Division			<u>117,117</u>
Passed through the State of Michigan			
Michigan State Police:			
2003 SHSGP Part II Training Grant	97.004	n/a	65,375
2003-2004 MSP/EMP SHSGP Grant	97.042	n/a	1,455
2004 Homeland Security	97.004	n/a	149,350
2004 - 2005 EMPG	97.067	n/a	26,951
Total State Police			<u>243,131</u>
Total Federal Emergency Management Agency			<u>360,248</u>
Total Federal Expenditures of Federal Awards			<u>\$ 3,859,632</u>

CITY OF ANN ARBOR, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Ann Arbor, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The City of Ann Arbor reporting entity is defined in Note I of the City's financial statements.

The City administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the City of Ann Arbor reporting entity. Of the federal expenditures presented in the schedule, the City of Ann Arbor provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant	14.218	\$ 831,423
Home Investment Partnership Program	14.239	<u>229,274</u>
Total		<u>\$ 1,060,697</u>

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note 3 of the City's financial statements.

3. LOANS

The value of non-cash assistance expended was zero. Loans outstanding at year end were \$938,787. There were no loan guarantees in effect for the year ended June 30, 2005.

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CITY OF ANN ARBOR, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X 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

Reportable condition(s) identified
not considered to be material weaknesses?

 X yes _____ none reported

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

Qualified

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

 X yes _____ no

CITY OF ANN ARBOR, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2005

SECTION I – SUMMARY OF AUDITORS’ RESULTS (Concluded)

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	HOME Investment Partnerships Program

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

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2005-1 Home Investment Partnership Program – Accounting and Reporting

It is the normal practice that the City Community Development Department incur costs before reimbursement is requested in the federal programs it administers. However, in connection with our testing of the Home Investment Partnership Program, we noted that a subrecipient was paid the entire amount of the contract as an advance before all the costs were incurred by that subrecipient. This resulted in \$315,150 in costs being advanced before the costs were incurred. Even though a receivable was set up to record the over advanced funds due from the subrecipient, in claiming eligible expenditures for \$315,150, the City violated compliance requirements related to cash management, as amounts were drawn against the grant in excess of the City/Subrecipient’s immediate cash needs.

Management’s response:

In the future, the Community Development Department will not advance funds to sub-recipients in advance of the related costs being incurred on projects.

SECTION IV – PRIOR YEAR FINDINGS

None.

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