

**City of Ann Arbor, Michigan**

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

**June 30, 2011**

City of Ann Arbor, Michigan

TABLE OF CONTENTS

June 30, 2011

	<u>Page</u>
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	1-2
Schedule of Expenditures of Federal Awards	3-4
Notes to Schedule of Expenditures of Federal Awards	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	6-7
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	8-9
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	10

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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 compliance of City of Ann Arbor, Michigan, with the types of compliance requirements described in OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 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, 2011.

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, 2011, and have issued our report thereon dated December 9, 2011. 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 9, 2011

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

<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	73-5D21-7-47	\$ 2,797,009	\$ 2,797,009
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
(Direct Programs)				
Community Development Block Grants <sup>(a)(b)</sup>	14.218			
Program year 2003/2004		B-04-MC-26-0001	3,822	3,822
Program year 2004/2005		B-04-MC-26-0001	34,688	34,688
Program year 2005/2006		B-05-MC-26-0001	7,117	7,117
Program year 2006/2007		B-06-MC-26-0001	18,175	18,175
Program year 2007/2008		B-07-MC-26-0001	9,881	9,881
Program year 2008/2009		B-08-MC-26-0001	158,999	158,999
			232,682	232,682
Community Development Block Grants MSHDA NSP	14.228	NSP-08-0381-ENT	288,916	288,916
ARRA - Community Development Block Grants <sup>(a)(b)</sup>	14.253			
CDBG - R		B-09-MY-26-0001	213,545	213,545
HOME Investment Partnerships Program	14.239			
Program year 2007/2008		M-07-MC260201	189,474	189,474
Program year 2008/2009		M-08-MC260201	146,407	146,407
			335,881	335,881
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			1,071,024	1,071,024
U.S. DEPARTMENT OF JUSTICE				
(Direct Programs)				
Domestic Violence Supplemental Grant	16.590	2005-WE-AX-0087	174,763	174,763
Local Law Enforcement Block Grants <sup>(a)</sup>	16.738			
2008 Justice Assistance Grant		2008-DJ-BX-0189	1,240	1,240
Local Law Enforcement Block Grants <sup>(a)</sup>	16.804			
2009 Edward Memorial ARRA - Justice Assistance Grant		2009-SB-B9-2391	142,157	142,157
TOTAL U.S. DEPARTMENT OF JUSTICE			318,160	318,160

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2011

<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				
ARRA - Drinking Water State Revolving Funds <sup>(a)</sup> DWRF	66.468	2F-00E751-01	\$ 5,088,034	\$ 5,088,034
U.S. DEPARTMENT OF ENERGY				
Passed through Michigan Department of Commerce and Industry Services				
Transportation Technologies Solar America Cities	81.041	DE-FC36-07GO1706	7,298	7,298
Transportation Technologies <sup>(a)</sup> ARRA - EEC Block Grant Bureau of Energy System LED	81.128	DE-SC0001935 BES-10-037	473,530 186,453	473,530 186,453
			<u>659,983</u>	<u>659,983</u>
TOTAL DEPARTMENT OF ENERGY			667,281	667,281
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through Michigan Department of Transportation				
OHSP 2010	20.601	AL-11-36-38	71,437	71,437
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Michigan State Police Emergency Management Division				
Homeland Security Grants 2010 EMP Grant	97.042	N/A	<u>25,505</u>	<u>25,505</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 10,038,450</u>	<u>\$ 10,038,450</u>

(a) Denotes 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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

**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, 2011 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 Nonmajor governmental funds	<u>\$ 10,038,450</u>	<u>\$ 10,038,450</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 an 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, 2011, which collectively comprise the City of Ann Arbor, Michigan's basic financial statements and have issued our report thereon dated December 9, 2011. We did not audit the financial statements of the Ann Arbor Housing Commission (discretely presented component unit) which represents 56 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 whose report thereon has been furnished to us, and our opinion, insofar as they relate to the amounts included for the Ann Arbor Housing Commission 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 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. In addition, because of inherent limitations in internal control, including possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. 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 and questioned costs as 2011-1 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 and questioned costs. 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 of the City of Ann Arbor, 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 9, 2011

City of Ann Arbor

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

**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
16.804	ARRA - Justice Assistance Grant
81.128	Transportation Technologies
14.218, 14.253	Community Development Block Grant Cluster
66.468	ARRA - Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$ 301,154

Auditee qualified as low-risk auditee?  X  Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

2011-1 USE OF CITY PURCHASING CARDS

Condition: During our analysis of internal controls over the purchasing card process we noted that five of the twenty transactions sampled contained no purchasing card statement listing details of transactions that occurred during the month. The receipts detailing the purchases and the appropriate business purpose pertaining to these statements were also missing. Eight of the twenty sampled lacked approval of the purchase. Credit card payments are made by the City on a monthly basis so the City paid for these transactions without reviewing the statement or any supporting receipts to authorize the purchase and determine that there was a valid business purpose for the transaction.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2011

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**Section II - Financial Statement Findings - continued**

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2011-1 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.

Cause: Purchasing card payments are automatically deducted from the City's bank account on the statement due date. All documentation relating to the charges paid is not being assembled and reviewed prior to the payment being made.

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 purchasing card reviewer, on a timely basis each month, for all purchases made using City purchasing cards.

Corrective Action Response: The above comments indicate that all documentation must be received prior to disbursement for payment on the p-cards. Actually, the p-card system is not designed to work that way. The p-card program automatically deducts the payment from the City's account at the beginning of the month and by policy the supporting paperwork comes in soon thereafter. Management's review of the transactions listed disclosed that in some instances where documentation was not available in accounting, the records were available in the department. Notwithstanding this, management acknowledges the policy requires documentation to be sent to and retained by the accounting department on a timely basis. Since supporting documentation has been subject to prior comment, the City changed its review in May 2011 so that every statement is reviewed by a single individual who is confirming that all documents and policies are being complied with. A review of this new procedure has indicated that requirements have been being met since May.

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**Section III - Federal Award Findings and Questioned Costs**

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None noted.

City of Ann Arbor

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2011

FINDINGS/NONCOMPLIANCE

Control Deficiencies Related to Internal Controls Over the Financial Statements.

2010-1 USE OF CITY PURCHASING CARDS

Condition: During our analysis of internal controls over the purchasing card process in 2010 we noted that several transactions sampled contained no purchasing card statement listing the details of 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 valid review of the statement or any supporting receipts to authorize the purchase and determine that there was a business purpose for the transaction.

Resolution: A similar issue was noted in our current year audit comments. We do not consider this issue resolved.

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.