

City of Ann Arbor, Michigan

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

June 30, 2006

City of Ann Arbor, Michigan

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**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, 2006. 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 2006-4, 2006-5, and 2006-6 in the accompanying schedule of findings and questioned costs, the City of Ann Arbor did not comply with certain requirements applicable to major Federal programs. Compliance with such requirements is necessary, in our opinion, for the City of Ann Arbor to comply with the requirements applicable to those programs.

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, 2006.

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 grant agreements applicable to Federal programs. In planning and performing our audit, we considered the City of Ann Arbor'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 of Ann Arbor's ability to administer a major Federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-4, 2006-5, and 2006-6.

A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error 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. However, we consider items 2006-4, 2006-5, and 2006-6 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of City of Ann Arbor as of and for the year ended June 30, 2006, and have issued our report thereon dated October 30, 2006. Our audit was performed for the purpose of forming 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, and the members of the City Council of the City of Ann Arbor, the pass-through grantors, and the Federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 30, 2006

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal 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	73-5D21-5-49	\$ 190,642	\$ 190,642
U.S. DEPARTMENT OF DEFENSE				
Direct Program				
Police equipment	12.000	N/A	9,100	9,100
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Program				
Community Development Block Grants	14.228			
Program year 2003/04		B-03-MC-26-0001	248,314	248,314
Program year 2004/05		B-04-MC-26-0001	277,709	277,709
Program year 2005/06		B-05-MC-26-0001	<u>762,731</u>	<u>762,731</u>
			1,288,754	1,288,754
Direct Program				
HOME Investment Partnerships Program(a)	14.239			
Program year 2001/02		M-01-MC260201	314,901	314,901
Program year 2002/03		M-02-MC260201	63,338	63,338
Program year 2003/04		M-03-MC260201	173,459	173,459
Program year 2004/05		M-04-MC260201	599,153	599,153
Program year 2005/06		M-05-MC260201	<u>169,571</u>	<u>169,571</u>
			<u>1,320,422</u>	<u>1,320,422</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			2,609,176	2,609,176
U.S. DEPARTMENT OF JUSTICE				
Direct Program				
Domestic Violence Grant	16.588	2005-WE-AX-0087	96,194	96,194
Direct Program				
Local Law Enforcement Block Grants Program	16.592			
		2003-LB-BX-1787	425	425
		2004-LB-BX-0931	499	499
		2005-DJ-BX-0788	<u>35,383</u>	<u>35,383</u>
			36,307	36,307
Passed through Michigan State Police Office of Highway Safety Planning				
2005 Youth Alcohol Enforcement	16.727	N/A	<u>12,054</u>	<u>12,054</u>
TOTAL DEPARTMENT OF JUSTICE			144,555	144,555

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Current Year</u>	
			<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF ENERGY				
Passed through Michigan Department of Commerce and Industry Services				
Transportation Technologies:				
Clean Cities Assistant	81.119	PLA-05-40	\$ 38,546	\$ 38,546
Ethanol Fueling Station		PLA-04-16	10,000	10,000
BioDiesel Fueling Stations		PLA-04-52	22,731	22,731
Clean Cities 2005 Coalition Support		PLA-05-46	3,000	3,000
BioDiesel Feasibility Study		PLA-05-10	<u>15,804</u>	<u>15,804</u>
			90,081	90,081
Idle Reduction Technologies	81.041	PLA-06-12	7,000	7,000
Energy Star Home		PLA-06-13	<u>10,262</u>	<u>10,262</u>
			<u>17,262</u>	<u>17,262</u>
TOTAL DEPARTMENT OF ENERGY			107,343	107,343
FEDERAL ELECTION ASSISTANCE COMMISSION				
Passed through State of Michigan Bureau of Elections				
Help America Vote Act (HAVA)	90.401	N/A	269,348	269,348
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Programs	97.004			
Assistance to Firefighters 2004 (a)		EMW-2004-FG-13672	58,691	58,691
Assistance to Firefighters 2005 (a)		EMW-2005-FG-17641	<u>251,464</u>	<u>251,464</u>
			310,155	310,155
Passed through Michigan State Police Emergency Management Division				
Homeland Security Grants (a)	97.004			
2004 Homeland Security		N/A	524,193	524,193
2005 Homeland Security		N/A	86,305	86,305
2003 SHSGP Exercise Grant		N/A	21,993	21,993
2003 State Homeland Security Grant		N/A	250,817	250,817
2004 Homeland Security Grant		N/A	65,563	65,563
2003-2005 SHSGP Training Grant		N/A	<u>15,574</u>	<u>15,574</u>
			964,445	964,445
Flood Mitigation Plan Grants	97.029			
Flood Mitigation Plan – Technical Assistant		EMC-2003-GR-7041	8,888	8,888
Flood Mitigation Plan – Planning		EMC-2003-GR-7041	<u>4,794</u>	<u>4,794</u>
			13,682	13,682

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year Ended June 30, 2006

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Current Year</u>	
			<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOMELAND SECURITY (CONTINUED)				
Passed through Michigan State Police Emergency Management Division (Continued)				
Emergency Management Performance Grant	97.042	N/A	\$ 27,083	\$ 27,083
Emergency Management Performance Grant	97.067	N/A	<u>8,984</u>	<u>8,984</u>
TOTAL U.S DEPARTMENT OF HOMELAND SECURITY			<u>1,324,349</u>	<u>1,324,349</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 4,654,513</u>	<u>\$ 4,654,513</u>

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

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, 2006 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>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT			
General Fund	\$ 2,952	\$ -	\$ 2,952
Open Space and Parkland Preservation Millage Fund	190,642	-	190,642
Nonmajor governmental funds	<u>3,869,043</u>	<u>-</u>	<u>3,869,043</u>
 TOTAL PRIMARY GOVERNMENT	 4,062,637	 -0-	 4,062,637
OTHER			
Equipment grants	<u>-</u>	<u>591,876⁽¹⁾</u>	<u>591,876</u>
	<u>\$ 4,062,637</u>	<u>\$ 591,876</u>	<u>\$ 4,654,513</u>

(1) The adjustment relates to grants of equipment that are not recorded as revenues in governmental funds since the transactions do not involve the receipt or disbursement of financial resources. The value of the equipment received was recognized in the Schedule of Expenditures of Federal Awards as of June 30, 2006 as required by the grantor agencies.

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS

Year Ended June 30, 2006

<u>Program Title/ Subrecipient (School District)</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 2005-06	14.228			
Avalon Housing		B-05-MC-26-0001	\$ 75,000	\$ -
Child Care Network		B-05-MC-26-0001	170,000	-
Food Gatherers		B-05-MC-26-0001	100,000	-
Legal Services of South Central Michigan		B-05-MC-26-0001	51,000	-
Community Housing Alternatives		B-05-MC-26-0001	35,721	-
			<u>\$ 431,721</u>	<u>\$ -0-</u>
HOME Investment Partnerships Program 2005-06	14.239			
Community Housing Alternatives		M-05-MC260201	\$ 22,176	\$ -
Washtenaw Affordable Housing		M-05-MC260201	282,000	-
			<u>\$ 304,176</u>	<u>\$ -0-</u>

<u>Balance July 1, 2005</u>	<u>Cash Transferred to Subrecipient</u>	<u>Subrecipient Expenditures</u>	<u>Balance June 30, 2006</u>
<u>Due From/(To) Subrecipient</u>			<u>Due From/(To) Subrecipient</u>
\$ -	\$ 75,000	\$ 75,000	\$ -0-
-	170,000	170,000	-0-
-	100,000	100,000	-0-
-	51,000	51,000	-0-
-	35,721	35,721	-0-
<u>\$ -0-</u>	<u>\$ 431,721</u>	<u>\$ 431,721</u>	<u>\$ -0-</u>
\$ -	\$ 22,176	\$ 22,176	\$ -0-
-	282,000	282,000	-0-
<u>\$ -0-</u>	<u>\$ 304,176</u>	<u>\$ 304,176</u>	<u>\$ -0-</u>

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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 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, 2006, and have issued our report thereon dated October 30, 2006. 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 opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting 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 financial reporting that, in our judgment, could adversely affect the City of Ann Arbor's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1, 2006-2, and 2006-3.

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. Our consideration of the internal control over financial reporting 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. However, we consider items 2006-1, 2006-2, and 2006-3 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 and other matters, 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.

We noted certain matters that we have reported to management and the City Council of the City of Ann Arbor, Michigan in a separate letter dated October 30, 2006.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 30, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

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 No

Reportable condition(s) identified that are not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Reportable condition(s) identified that are not considered to be material weakness(es)? Yes 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? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.239	HOME Investment Partnerships
97.004	State Domestic Preparedness Equipment Support

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

Auditee qualified as low-risk auditee? Yes No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

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, that meals, office supplies, and travel expenses not be incurred (except under a departure from policy ordered by the City Administrator), 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.

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. It was noted that:

- Supporting documentation was not provided for several of the transactions tested.
- None of the transactions sampled contained any explanation that would allow a user to determine that the purchase was made for official City business.
- There are individuals who hold unrestricted cards but the approval for those cards was not given by the City Administrator. Approval was given by the Chief Financial Officer. Purchases were made for items not otherwise allowed under the policy on one of these cards we reviewed.
- Instances were noted where purchases were made using the City credit cards (meals, recognition functions) that violate Michigan State law or Attorney General Opinions as compiled in Michigan Department of Treasury's document "Determining Lawful Expenditures".

Context: This finding was noted during testing of transactions related to credit card usage.

Recommendation: We recommend the City take steps to ensure that supporting documentation is retained for all credit card transactions, including documentation of the business purpose of all charges. Additionally, unrestricted cards should only be granted as ordered by the City Administrator. Unlimited cards currently in place that were not properly approved should be revoked or approved by the City Administrator in writing. We further recommend that the cards be used only for lawful expenditures allowed by the State of Michigan.

Corrective Action Response: Management is changing the purchasing card policy to require users to send documentation of transactions to Finance on a monthly basis, including the business purpose of the transaction, so that all documentation can be centrally maintained. Management will also formally document the City Administrator's designation of the Chief Financial Officer as the credit card administrator. With respect to purchasing cards being used for recognition, management believes that reward and recognition of employee contributions are important in the present environment where the City asks employees to do more with less. The recognition events are a key part of the City's efforts to motivate employees. Many other municipalities in the State, similar to the private sector, have established recognition programs. Management will develop a funding strategy for these events that comply with the established requirements.

2006-2 UNLAWFUL EXPENDITURES

Criteria: Guidance concerning lawful expenditures is given by the Michigan Department of Treasury in a document called "Determining Lawful Expenditures" that is available on their website. Specifically disallowed are expenditures for meals (with some exceptions) and employee recognition.

Condition: Numerous instances of meals being purchased and employee recognition being provided were noted. Each department of the City has a budget each year for employee recognition.

Context: This finding was noted during testing of transactions related to credit card usage, inquiry of management, and observation of employee recognition events while the audit was being conducted.

Recommendation: We recommend that all expenditures that do not have a documented public purpose be discontinued.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Section II - Financial Statement Findings (continued)

2006-2 UNLAWFUL EXPENDITURES - CONTINUED

Corrective Action Response: Management is changing administrative policy to require the appropriate documentation for meals purchased using City funds. Finance will also monitor and test transactions for compliance with the revised policy. With respect to employee recognition events, as stated in management's response to comment 2006-1, management is committed to employee recognition and will be developing a funding strategy to comply with State law.

2006-3 REIMBURSEMENT OF EMPLOYEE INCOME TAXES ON FRINGE BENEFITS

Criteria: Compliance with a non-union employee contract.

Condition: A City employee was 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 does not specify, however, that the employee was entitled to reimbursement of income taxes incurred.

Context: This finding was noted during testing of transactions related to payments made and compliance with employment agreements for certain key management employees.

Recommendation: We recommend that either the applicable employee's contract be amended to allow these reimbursements or steps be taken to ensure that similar payments do not take place in the future.

Corrective Action Response: Management is currently evaluating internal changes to address this situation.

Section III - Federal Award Findings and Questioned Costs

2006-4 SUPPORTING DOCUMENTATION FOR EXPENDITURES

State Domestic Preparedness Equipment Support Program Passed through the Michigan State Police - CFDA 97.004; No grant number specified by grantor; Grant period FY 2005-06.

Criteria: Compliance with City financial management procedures.

Condition: During our testing of disbursements related to equipment purchases for the above noted grant it was determined that the City did not comply with established financial management procedures (i.e., payment made only from original invoices). Nine (9) of the thirty-five (35) invoices tested for the grant were not paid from original invoices; eight (8) were faxed and one (1) was hand-written.

Questioned costs: None

Context: This finding was noted during testing of transactions related to testing the major Federal programs.

Recommendation: We recommend the City finance department work with program management personnel to ensure that appropriate documentation is provided for future grant expenditures.

Corrective Action Response: Management will ensure that all equipment purchases for grant related expenditures will be paid from original invoices only.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2006

Section III - Federal Award Findings and Questioned Costs - Continued

2006-5 HOUSING QUALITY INSPECTIONS

HOME Investment Partnerships Program (Direct Program) - CFDA 14.239; Grant No. M-05-MC260201; Grant period FY 2005-06.

Criteria: Special Tests and Provisions in accordance with OMB Circular A-133 2006 Compliance Supplement. During the period of affordability for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than: (a) every three years for projects containing 1 to 4 units, (b) every two years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units.

Condition: During our review of the process related to housing quality inspections for the above noted grant it was determined that the City did not provide adequate inspection procedures for some of the applicable rental properties. It was noted that fifteen (15) of the thirty-four (34) applicable rental properties had not been inspected in a timely manner consistent with the above listed requirements.

Questioned costs: None

Context: This finding was noted during compliance testing related to the major Federal programs.

Recommendation: We recommend the City implement formal written procedures related to housing quality inspections and then periodically monitor compliance with the procedures. These written procedures should include requirements for on-site inspections in accordance with the Compliance Supplement.

Corrective Action Response: We agree with the comment, management will ensure the supervisory staff will make sure that all inspections comply with documented procedures and in accordance with the Compliance Supplement.

2006-6 PROCUREMENT, SUSPENSION AND DEBARMENT

HOME Investment Partnerships Program (Direct Program) - CFDA 14.239; Grant No. M-05-MC260201; Grant period FY 2005-06.

Criteria: Suspension and debarment verification in accordance with OMB Circular A-133. The City is required to perform verification procedures to determine if parties are listed as suspended or debarred from entering into Federally funded contracts before entering into a "covered transaction" with that party. A covered transaction is defined as a procurement transaction exceeding \$100,000 or grants to subrecipients in any amount. Acceptable verification procedures include checking the Excluded Parties List System (EPLS) maintained by the U.S. General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity. The EPLS may be accessed online at <http://epls.arnet.gov>.

Condition: It was determined 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, though no covered transactions were entered into during the year, no procedures were in place to verify that procurement transactions were not being entered into with parties that had been suspended or debarred.

Questioned costs: None

Context: This finding was noted during testing procedures related to testing the major Federal programs.

Recommendation: We recommend the City implement formal written procedures related to verification of suspended or debarred status for covered transactions then periodically monitor compliance with those procedures.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2006

Section III - Federal Award Findings and Questioned Costs - Continued

2006-6 PROCUREMENT, SUSPENSION AND DEBARMENT - CONTINUED

Corrective Action Response: We agree with the comment, management will amend our contract language to ensure that subrecipients certify that they are not listed as suspended or debarred from entering into a Federally funded contract.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2006

Federal Award Findings and Questioned Costs

2005-1 HOME INVESTMENT PARTNERSHIPS – ACCOUNTING AND REPORTING

In the prior year it was reported that the HOME Investment Partnerships Program had advanced grant funds to a certain subrecipient in advance of expenditures actually being incurred. This was reported as a violation of Federal cash management compliance requirements under OMB Circular A-133. Funds in excess of applicable expenditures were recorded as accounts receivable as of June 30, 2005 and were received during the fiscal year ended June 30, 2006. This finding is considered to be resolved.