

City of Ann Arbor, Michigan

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

June 30, 2007

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, 2007. 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.

In our opinion, 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, 2007.

Internal Control Over Compliance

The management of the City of Ann Arbor is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the City of Ann Arbor's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ann Arbor's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over 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 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, 2007, and have issued our report thereon dated December 18, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise City of Ann Arbor's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 18, 2007

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

<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 ^(a)	10.913	73-5D21-7-74	\$ 1,257,400	\$ 1,257,400
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
(Direct Program)				
Community Development Block Grants	14.218			
Program year 2003/04		B-03-MC-26-0001	13,645	13,645
Program year 2004/05		B-04-MC-26-0001	277,040	277,040
Program year 2005/06		B-05-MC-26-0001	424,771	424,771
Program year 2006/07		B-06-MC-26-0001	<u>807,631</u>	<u>807,631</u>
			1,523,087	1,523,087
(Direct Program)				
HOME Investment Partnerships Program ^(a)	14.239			
Program year 2001/02		M-01-MC260201	250	250
Program year 2002/03		M-02-MC260201	29,401	29,401
Program year 2003/04		M-03-MC260201	339,904	339,904
Program year 2004/05		M-04-MC260201	311,147	311,147
Program year 2005/06		M-05-MC260201	237,389	237,389
Program year 2006/07		M-06-MC260201	<u>163,587</u>	<u>163,587</u>
			<u>1,081,678</u>	<u>1,081,678</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			2,604,765	2,604,765
U.S. DEPARTMENT OF JUSTICE				
(Direct Program)				
Domestic Violence Grant	16.588	2005-WE-AX-0087	257,319	257,319
(Direct Program)				
Local Law Enforcement Block Grants Program	16.592	2006-DJ-BX-0788	<u>23,209</u>	<u>23,209</u>
TOTAL DEPARTMENT OF JUSTICE			280,528	280,528
U.S. DEPARTMENT OF ENERGY				
Passed through Michigan Department of Commerce and Industry Services				
Transportation Technologies:				
Idle Reduction Technologies	81.041	PLA-06-12	13,000	13,000
Energy Star Home		PLA-06-13	21,339	21,339
Methane Production From Biosolids - WWFP		PLA-06-48	11,875	11,875
Clean Cities Challenge		PLA-06-38	<u>16,697</u>	<u>16,697</u>
			62,911	62,911

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2007

<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 - CONTINUED				
Passed through Michigan Department of Commerce and Industry Services - continued				
Ethanol Fueling Station	81.119	PLA-04-16	\$ 31,360	\$ 31,360
Clean Cities 2005 Coalition Support		PLA-05-46	6,150	6,150
BioDiesel Feasibility Study		PLA-05-10	<u>6,500</u>	<u>6,500</u>
			<u>44,010</u>	<u>44,010</u>
TOTAL DEPARTMENT OF ENERGY			106,921	106,921
FEDERAL ELECTION ASSISTANCE COMMISSION				
Passed through State of Michigan Bureau of Elections				
Help America Vote Act (HAVA)	93.617	N/A	4,450	4,450
U.S. DEPARTMENT OF HOMELAND SECURITY				
(Direct Program)				
Assistance to Firefighters 2006 ^{(a)(b)}	97.004	EMW-2006-FG-18490	67,200	67,200
Passed through Michigan State Police Emergency Management Division				
Homeland Security Grants ^{(a)(b)}				
2005 Homeland Security	97.004	N/A	227,515	227,515
2006 Homeland Security CCP		N/A	811	811
2006 Homeland Security Conference		N/A	<u>3,686</u>	<u>3,686</u>
			232,012	232,012
Flood Mitigation Plan Grants				
Flood Mitigation Plan - Technical Assistant	97.029	EMC-2003-GR-7041	2,856	2,856
Flood Mitigation Plan - Planning		EMC-2003-GR-7041	<u>1,360</u>	<u>1,360</u>
			4,216	4,216
Emergency Management Performance Grant				
	97.042	N/A	9,028	9,028
Emergency Management Performance Grant ^{(a)(b)}				
	97.067	N/A	<u>26,211</u>	<u>26,211</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>338,667</u>	<u>338,667</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 4,592,731</u>	<u>\$ 4,592,731</u>

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

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

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, 2007 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			
Open Space and Parkland Preservation Millage Fund	\$ 466,300	\$ 791,100	\$ 1,257,400
Nonmajor governmental funds	<u>3,335,331</u>	<u>-</u>	<u>3,335,331</u>
 TOTAL PRIMARY GOVERNMENT	 <u>\$ 3,801,631</u>	 <u>\$ 791,100</u>	 <u>\$ 4,592,731</u>

- (1) The adjustment relates to a prior period adjustment recorded in the Open Space and Parkland Preservation Millage Fund. This revenue should have been recorded in the prior year but is shown as current year Federal awards because program expenditures were audited in the current year.

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS

Year Ended June 30, 2007

<u>Program Title/Subrecipient</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>(Memo Only) Prior Years' Expenditures</u>
Community Development Block Grants 2006-07	14.228			
Avalon Housing		B-06-MC-26-0001	\$ 24,900	\$ -
Dawn Farm		B-06-MC-26-0001	100,000	-
Community Housing Alternatives		B-06-MC-26-0001	77,028	-
			<u>\$ 201,928</u>	<u>\$ -0-</u>
HOME Investment Partnerships Program 2006-07	14.239			
Community Housing Alternatives		M-06-MC260201	\$ 178,000	\$ -
Avalon Housing		M-06-MC260201	29,401	-
Washtenaw Affordable Housing		M-06-MC260201	5,921	-
			<u>\$ 213,322</u>	<u>\$ -0-</u>

<u>Balance July 1, 2006</u>	<u>Cash Transferred to Subrecipient</u>	<u>Subrecipient Expenditures</u>	<u>Balance June 30, 2007</u>
<u>Due From/(To) Subrecipient</u>			<u>Due From/(To) Subrecipient</u>
\$ -	\$ 24,900	\$ 24,900	\$ -0-
-	100,000	100,000	-0-
-	77,028	77,028	-0-
<u>\$ -0-</u>	<u>\$ 201,928</u>	<u>\$ 201,928</u>	<u>\$ -0-</u>
\$ -	\$ 178,000	\$ 178,000	\$ -0-
-	29,401	29,401	-0-
-	5,921	5,921	-0-
<u>\$ -0-</u>	<u>\$ 213,322</u>	<u>\$ 213,322</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, 2007, and have issued our report thereon dated December 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ann Arbor's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Ann Arbor's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Ann Arbor's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Ann Arbor's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Ann Arbor's financial statements that is more than inconsequential will not be prevented or detected by the City of Ann Arbor's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2007-1, 2007-2, 2007-3, and 2007-4 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described as 2007-3 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ann Arbor's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as 2007-5, 2006-1, and 2006-2.

The City of Ann Arbor's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Ann Arbor's responses and, accordingly, we express no opinion on them.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 18, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

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

Significant deficiencies 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

Significant deficiencies identified that are not considered to be material weakness(es)? Yes 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 No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.239	HOME Investment Partnerships
97.004 & 97.067	Homeland Security Cluster
10.913	Farm and Ranch Lands Protection Program

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 - CONTINUED

Year Ended June 30, 2007

Section II - Financial Statement Findings

2007-1 FRAUD RISK MANAGEMENT PROGRAM

Criteria: Management is responsible for the detection and prevention of fraud. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Condition: During the course of our audit, we noted that the City has not developed or implemented a fraud risk management program. A similar condition was noted and reported in our audit comments last year.

Effect: Due to the City not developing a fraud risk assessment and monitoring program management is unable to assess the City's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

Recommendation: We recommend that the City develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Corrective Action Response: Management has investigated developing a fraud risk management program in cooperation with the City's insurance broker during fiscal year 2007. We are in the process of developing a fraud policy appropriate for the size and complexity of the City and expect completion during fiscal year 2008.

2007-2 PERFORMANCE DEPOSITS AND TREE ESCROW DEPOSITS

Criteria: Management is responsible for the establishment of a system of internal controls that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient, reliable information for the preparation of the City's financial statements in accordance with accounting principles generally accepted in the United States of America,

Condition: The City currently holds performance deposits and tree escrow deposits that have been collected as security for satisfactory completion of certain projects. Currently these amounts total approximately \$874,630 and are recorded as cash and liabilities of the General Fund. During our review of documentation for these deposits, we noted that some of the performance deposits go back as far as the 1980's and some of the tree escrow amounts go back as far as 1997. A similar condition was noted and reported in our audit comments last year.

Effect: The City is holding old performance deposits and tree escrow deposits that should be remitted to the rightful owners, escheated to the State, or remitted to the City.

Recommendation: We recommend that the City review these deposits and take steps necessary to return the funds to the rightful owners, escheat the funds to the State under that unclaimed property laws, or remit the amounts to the City due to unsatisfactory outcome of the related project.

Corrective Action Response: Staff has reviewed old accounts related to performance bonds and tree escrow accounts during fiscal year 2007. Refunds of over \$400,000 were issued during the fiscal year. Staff is continuing to investigate old accounts to ensure their proper disposition.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2007

Section II - Financial Statement Findings - continued

2007-3 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Condition: Material journal entries for the proper recognition accounts payable, capital assets, and beginning fund balance were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the City's general ledger.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the City's internal controls. One of the transactions, had the City recorded it properly in the prior year, would have resulted in additional Federal expenditures being reported on the Schedule of Expenditures of Federal Awards. The program would have been audited as major but was not. The program was audited during the current year with no compliance findings.

Recommendation: We recommend that the City take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: Management agrees with this recommendation and has made the appropriate changes to financial procedures to ensure this does not re-occur.

2007-4 COMMUNICATION WITH THE DOWNTOWN DEVELOPMENT AUTHORITY (DDA)

Criteria: The Downtown Development Authority (DDA) periodically purchases capital assets in the normal course of business. Once purchased, these capital assets become property of the City.

Condition: There is no line of communication currently in place to ensure that all capital asset purchases made by the DDA are recorded as capital assets in the City's financial statements. Material assets purchased by the DDA may be missing from the City's financial statements.

Effect: Without communication of asset purchases between the City and the DDA, there is no mechanism in place to ensure that all material capital assets purchased by the DDA are recorded as capital assets of the City.

Recommendation: We recommend that management of the City work with management of the DDA to develop lines of communication to ensure that all material capital assets purchased by the DDA are reported to the City, and subsequently recorded in the City's financial statements.

Corrective Action Response: Management will implement procedural changes to ensure the City receives the proper level of detail relating to financial transactions.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2007

Section II - Financial Statement Findings - continued

2007-5 UNFAVORABLE BUDGET VARIANCES

Criteria: The Uniform Budgeting and Accounting Act (Public Act 621 of 1978) requires the City to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined." The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body." The City adopted the budget for the General Fund at the department level and the total expenditure level for the Special Revenue funds.

Condition: As noted in the annual financial statements, some of the budgeted activities of the City exceeded the amounts appropriated. The variances noted were in the General Fund and two (2) Special Revenue Funds. A similar issue was noted and reported in our audit comments last year.

Effect: The City is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the City monitor expenditures against adopted budgets in all applicable funds and make appropriated budget adjustments as needed.

Corrective Action Response: Management brought a budget amendment to Council in June of 2007 to adjust budgets as needed based on forecasted expenditures. Subsequent to this budget amendment, additional expenditures beyond the forecast were incurred. As this was a new procedure for fiscal year 2007, management will work to refine the forecasts for fiscal year 2008 to ensure sufficient budget amendments are adopted by Council.

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. This condition was noted and reported in our audit comments last year. It was noted that:

- None of the transactions sampled contained any explanation that would allow a user to determine that the purchase was made for official City business.
- 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".

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

Recommendation: We recommend the City take steps to ensure that supporting documentation be maintained that includes the business purpose of all charges. We further recommend that the cards be used only for lawful expenditures allowed by the State of Michigan.

Corrective Action Response: Management has changed the purchasing card policy and implemented several new procedures during fiscal year 2007. The full effect of these changes should be evident in fiscal year 2008.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2007

Section II - Financial Statement Findings - continued

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. This condition was noted and reported in our audit comments last year.

Effect: The City is not in compliance with applicable guidance from the Michigan Department of Treasury.

Recommendation: We recommend that all expenditures that do not have a documented public purpose be discontinued. Also, in the instances where expenditures for employee meals are for a public purpose, we recommend that all supporting documentation be retained, including a written statement of the public purpose for each expenditure

Corrective Action Response: Management adopted a new policy subsequent to the fiscal year-end that clarifies allowable expenditures for employee recognition and meals.

Section III - Federal Award Findings and Questioned Costs

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2007

Financial Statement Findings

2006-1 USE OF CITY CREDIT CARDS

In our prior year testing related to the use of City credit cards, we noted several instances where documentation was missing, transactions without a documented business purpose, unrestricted cards not properly approved, and purchases made that violated applicable State requirements. This was reported as a violation of the City's financial management policies and procedures. During our current audit testing, we noted that documentation was available for all purchases sampled and that unrestricted cards had been properly approved. We noted in our current audit testing, however, that the business purpose of certain transactions had not been documented and that purchases were made that violated applicable State requirements. This finding is partially repeated in the current year Schedule of Findings and Questioned Costs.

2006-2 UNLAWFUL EXPENDITURES

In the prior year, it was noted that purchases for meals and employee recognition had been made in violation of guidance concerning lawful expenditures given by the Michigan Department of Treasury. During our current year audit testing, similar transactions were noted. This finding is repeated in the current year Schedule of Findings and Questioned Costs.

2006-3 REIMBURSEMENT OF EMPLOYEE INCOME TAXES ON FRINGE BENEFITS

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

Federal Award Findings and Questioned Costs

2006-4 SUPPORTING DOCUMENTATION FOR EXPENDITURES

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

2006-5 HOUSING QUALITY INSPECTIONS

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

2006-6 PROCUREMENT, SUSPENSION AND DEBARMENT

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2007

Federal Award Findings and Questioned Costs - continued

2005-1 HOME INVESTMENT PARTNERSHIPS - ACCOUNTING AND REPORTING

In FY 2005 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 in FY 2006.