

City of Ann Arbor, Michigan

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

June 30, 2009

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, 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, 2009. The City of Ann Arbor's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs are 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 are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The 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, 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.

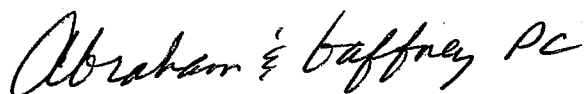
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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 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, 2009, and have issued our report thereon dated December 14, 2009. 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 Mayor and members of the City Council, others within the City, 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.
Certified Public Accountants

December 14, 2009

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2009

<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	\$ 681,800	\$ 681,800
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
(Direct Program)				
Community Development Block Grants ^(a)	14.218			
Program year 2005/06		B-05-MC-26-0001	3,181	3,181
Program year 2006/07		B-06-MC-26-0001	63,513	63,513
Program year 2007/08		B-07-MC-26-0001	209,159	209,159
Program year 2008/09		B-08-MC-26-0001	<u>746,912</u>	<u>746,912</u>
			1,022,765	1,022,765
(Direct Program)				
HOME Investment Partnerships Program ^(a)	14.239			
Program year 2004/05		M-04-MC260201	1,532	1,532
Program year 2005/06		M-05-MC260201	76,485	76,485
Program year 2006/07		M-06-MC260201	235,691	235,691
Program year 2007/08		M-07-MC260201	420,245	420,245
Program year 2008/09		M-08-MC260201	<u>684,598</u>	<u>684,598</u>
			<u>1,418,551</u>	<u>1,418,551</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			2,441,316	2,441,316
U.S. DEPARTMENT OF JUSTICE				
(Direct Program)				
Domestic Violence Grant	16.588	2005-WE-AX-0087	12,015	12,015
Domestic Violence Supplemental Grant	16.588	2005-WE-AX-0087	<u>180,299</u>	<u>180,299</u>
			192,314	192,314
(Direct Program)				
Local Law Enforcement Block Grants	16.592			
2007 Justice Assistance Grant		2007-DJ-BX-0472	4,125	4,125
2008 Justice Assistance Grant		2008-DJ-BX-0189	<u>11,220</u>	<u>11,220</u>
			<u>15,345</u>	<u>15,345</u>
TOTAL DEPARTMENT OF JUSTICE			207,659	207,659

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2009

<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 ENERGY				
(Direct Program)				
Transportation Technologies Solar America Cities	81.041	DE-FC36-07GO17068	\$ 66,031	\$ 66,031
Passed through Michigan Department of Commerce and Industry Services				
Transportation Technologies	81.041			
Biodiesel Fueling Station		MDOT-2007-0762	12,200	12,200
Biodiesel Production		PLA-05-10	4,315	4,315
Community Energy Project		PLA-08-38	<u>1,102</u>	<u>1,102</u>
			<u>17,617</u>	<u>17,617</u>
TOTAL DEPARTMENT OF ENERGY			83,648	83,648
ELECTION ASSISTANCE COMMISSION				
Passed through State of Michigan				
Bureau of Elections - Help America Vote Act				
Voting Access for Individuals with Disabilities 2008 Program Grant	93.617	N/A	2,400	2,400
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Michigan State Police				
Emergency Management Division				
Homeland Security Grants	97.042			
2008 EMP Grant		N/A	<u>6,597</u>	<u>6,597</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 3,423,420</u>	<u>\$ 3,423,420</u>

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

City of Ann Arbor, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2009

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, 2009 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>\$ 3,423,420</u>	<u>\$ 3,423,420</u>

NOTE C: ANN ARBOR HOUSING COMMISSION

The financial statements of the City of Ann Arbor includes the Ann Arbor Housing Commission, which expended more than \$500,000 in Federal awards. The Ann Arbor Housing Commission has a separate A-133 audit which is performed by other auditors and issued separately. Those Federal awards are not included in the City of Ann Arbor's Schedule of Expenditures of Federal Awards.

City of Ann Arbor

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS

Year Ended June 30, 2009

<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 2008-09	14.218			
Avalon Housing		B-08-MC-26-0001	\$ 75,000	\$ -
Child Care Network		B-08-MC-26-0001	170,000	-
Ozone House		B-08-MC-26-0001	47,000	-
Community Action Network		B-08-MC-26-0001	31,000	-
Legal Service of So. Central MI		B-08-MC-26-0001	73,000	-
			<u>\$ 396,000</u>	<u>\$ -0-</u>
HOME Investment Partnerships Program 2008-09	14.239			
Michigan Ability Partners		M-08-MC260201	\$ 14,675	\$ -
Homeplace Community Land		M-08-MC260201	3,210	-
Washtenaw Affordable Housing		M-08-MC260201	2,751	-
Avalon Housing		M-08-MC260201	25,222	-
			<u>\$ 45,858</u>	<u>\$ -0-</u>

<u>Balance July 1, 2008</u>	<u>Cash Transferred to Subrecipient</u>	<u>Subrecipient Expenditures</u>	<u>Balance June 30, 2009</u>
<u>Due From/(To) Subrecipient</u>			<u>Due From/(To) Subrecipient</u>
\$ -	\$ 75,000	\$ 75,000	\$ -0-
-	170,000	170,000	-0-
-	47,000	47,000	-0-
-	31,000	31,000	-0-
-	73,000	73,000	-0-
<u>\$ -0-</u>	<u>\$ 396,000</u>	<u>\$ 396,000</u>	<u>\$ -0-</u>
\$ -	\$ 14,675	\$ 14,675	\$ -0-
-	3,210	3,210	-0-
-	2,751	2,751	-0-
-	25,222	25,222	-0-
<u>\$ -0-</u>	<u>\$ 45,858</u>	<u>\$ 45,858</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 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, 2009, which collectively comprise the City of Ann Arbor's basic financial statements and have issued our report thereon dated December 14, 2009. 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.

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'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's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting.

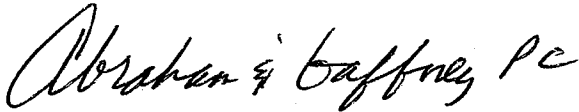
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of management, the Mayor and members of the City Council, others within the City, 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.
Certified Public Accountants

December 14, 2009

City of Ann Arbor
 SCHEDULE OF FINDINGS
 Year Ended June 30, 2009

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)? _____ 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

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? X Yes _____ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218 14.239	Community Development Block Grants HOME Investment Partnerships

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

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Questioned Costs

None noted

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2009

Financial Statement Findings

2006-1 USE OF CITY CREDIT CARDS

In 2006 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 were not properly approved, and the purchases made that violated applicable State requirements. This was reported as a violation of the City's financial management policies and procedures. In 2007, we noted that documentation was available for all purchases sampled and that unrestricted cards had been properly approved but an appropriate business purpose had not been documented in all instances. We noted in our 2008 audit testing that the business purpose of certain transactions had again not been documented and that documentation for certain transactions was again missing. Additionally, we noted that the exceptions seemed to be concentrated within some of the same service units where problems have been found in the past. At that time we noted that the City had adopted an acceptable policy for purchases. No issues were noted in 2009 as the City appeared to take appropriate steps to monitor prior audit findings and comply with their adopted credit card policy. We consider this issue resolved.

2007-1 FRAUD RISK MANAGEMENT PROGRAM

In 2007, we noted that the City had not developed or implemented a fraud risk management program that was appropriate to the size and complexity of the entity. In 2008, the City implemented an appropriate fraud risk management program. This finding is considered to be resolved.

2007-2 PERFORMANCE DEPOSITS AND TREE ESCROW DEPOSITS

In 2007, we noted that the City held excessive amounts as performance deposits and tree escrow deposits that were collected as security for satisfactory completion of certain projects. These amounts were 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 went back as far as the 1980's and some of the tree escrow amounts went back as far as 1997. In 2008, the City closed out many of these deposits. We also noted that the dollar amount and average age of the deposits improved considerably. This finding is considered to be resolved.

2007-3 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

In 2007, 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. Similar misstatements were not noted during the performance of 2008 or 2009 audit procedures. This finding is considered to be resolved.

2007-4 COMMUNICATION WITH DOWNTOWN DEVELOPMENT AUTHORITY (DDA)

In 2007, we noted there was no line of communication currently in place to ensure that all capital asset purchases made by the DDA were recorded as capital assets in the City's financial statements. Material assets purchased by the DDA may have been missing from the City's financial statements. In 2008 and 2009 the DDA provided the City with a listing of capital outlay expenditures to be considered for inclusion in the City's financial statements as capital assets. This finding is considered to be resolved.

2007-5 UNFAVORABLE BUDGET VARIANCES

In 2007, we noted 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. In 2008 and 2009 we noted that expenditures in excess of amounts appropriated were not material. This finding is considered to be resolved.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED

Year Ended June 30, 2009

Financial Statement Findings - Continued

2008-1 PURCHASE OF TELEVISIONS FOR MAINTENANCE FACILITY

In 2008, during the performance of our audit procedures and inquiries related to purchasing card use, it had come to our attention that certain employees at the City maintenance facility had purchased eleven (11) flat-screen televisions for use at the facility. Also purchased were several DVD players, HDMI cables, and custom installation services. These purchases were not approved in advance by the Service Area Administrator. The purchases were made using the City credit cards of several employees and arranged in such a way that they would not exceed applicable credit limits on the cards. No such issues were discovered during the current year, therefore we consider this issue resolved.

Federal Award Findings and Questioned Costs

2008-2 INSPECTIONS

In 2008, we noted that rehabilitation projects charged to the CDBG grant did not have the required inspections performed to ensure that work is being completed nor did they properly document inspections that did take place. During our analysis in 2009 we noted that inspections had been performed within an appropriate timeframe and that the inspections were being properly documented. We consider this issue resolved.

2008-3 PROGRAM INCOME

During our testing in 2008 we noted that the Community Development office could provide no documentation of a draw that was selected for testing. This draw was claimed as a usage of program income for project purposes. In 2009, we noted that all claims which we tested that had been submitted for reimbursement had appropriate supporting documentation. We consider this issue resolved.