

City of Traverse
City, Michigan



Fiscal Year Ended
June 30, 2012

Single Audit Act
Compliance

CITY OF TRAVERSE CITY, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

February 1, 2013

Honorable Mayor and
Members of the City Commission
City of Traverse City
Traverse City, 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 Traverse City, Michigan (the "City")*, as of and for the year ended June 30 2012, which collectively comprise the basic financial statements, and have issued our report thereon dated December 28, 2012. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



CITY OF TRAVERSE CITY, MICHIGAN
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Program or Award Number	Federal Expenditures
U.S. Department of Commerce			
Passed through the Michigan Office of the Great Lakes Coastal Zone Management Program	11.419	11D-10.03	\$ 7,247
U.S. Department of Housing and Urban Development			
Passed through the Michigan Economic Development Corporation CDBG Program	14.228	MSC 208009-EDIG	250,000
Passed through Grand Traverse County Community Challenge Planning Grants	14.704	CCPM0012-10	<u>60,816</u>
Total U.S. Department of Housing and Urban Development			<u>310,816</u>
U.S. Department of Justice			
Passed through Michigan Department of Community Health then Missaukee County Edward Byrne Memorial Justice Grant	16.738	72315-5-12-B	17,351
Edward Byrne Memorial Justice Grant	16.738	72315-4-11-B	971
Direct Program Bullet Proof Vest	16.607	N/A	<u>3,913</u>
Total U.S. Department of Justice			<u>22,235</u>
U.S. Department of Transportation			
Passed through Michigan Office of Highway Safety Planning OSHP Safe Communities Grant	20.600	N/A	11,382
Passed through Grand Traverse County OSHP Safe Communities Grant	20.600	PT-12-30	<u>1,262</u>
Total U.S. Department of Transportation			<u>12,644</u>
U.S. Department of Environmental Protection Agency			
Passed through The Watershed Center Grand Traverse Bay Great Lakes Program	66.469	N/A	<u>257,367</u>
U.S. Department of Energy			
Passed through State of Michigan Department of Energy, Labor and Economic Growth ARRA - Energy Efficiency and Conservation Block Grant	81.128	BES-11-26	<u>528,539</u>
U.S. Department of Homeland Security Grant Program			
Direct Program Assistance to Firefighters	97.044	N/A	1,310
Passed through Michigan State Police Homeland Security Grant Program	97.067	N/A	586
Passed through Crawford County Homeland Security Grant Program	97.067	N/A	63,076
Passed through Otsego County Homeland Security Grant Program	97.067	N/A	16,117
Passed through Benzie County Homeland Security Grant Program	97.067	N/A	<u>160</u>
Total Department of Homeland Security			<u>81,249</u>
Total Expenditures of Federal Awards			<u>\$ 1,220,097</u>

CITY OF TRAVERSE CITY, MICHIGAN

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the City under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

III. SUBRECIPIENTS

The City had two subrecipients, Century Inc. (CFDA 14.228) and Michigan Saves (CFDA 81.128).

IV. GRANTS ADMINISTERED BY OTHERS

Federal revenue recorded on the statement in the amount of \$1,103,149 is not included in the SEFA because the grants were administered by the State of Michigan Department of Transportation and the Conservation Resource Alliance.

V. FEDERAL REVENUE RECONCILIATION

Total federal revenue of \$2,315,999 as shown on the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds is equal to the SEFA in the amount of \$1,220,097 plus the amount of \$1,103,149 described in Note IV less Downtown Development Authority component unit federal revenue in the amount of \$7,247.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

February 1, 2013

Honorable Mayor and
Members of the City Commission
City of Traverse City
Traverse City, 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 Traverse City, Michigan* (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 28, 2012. 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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 significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 City Commission, others within the City, 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. However, it is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

**INDEPENDENT AUDITORS' 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**

February 1, 2013

The Honorable Mayor and
Members of the City Commission
City of Traverse City, Michigan

Compliance

We have audited the compliance of the *City of Traverse City, Michigan* (the "City") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City 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, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying schedule of findings and questioned costs as item 2012-SA-1.

Internal Control Over Compliance

Management of the City 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's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or 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 a 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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-SA-1. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City'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's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the City Commission, others within the City, 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. However, it is a matter of public record, and its distribution is not limited.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

CITY OF TRAVERSE CITY, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? 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 deficiency(ies) identified? X yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? X yes no

Identification of major programs:

CFDA Number

81.128

14.228

Name of Federal Program or Cluster

ARRA - Energy Efficiency and Conservation Block Grant

Community Development Block Grant

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 reported.

CITY OF TRAVERSE CITY, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-1 - Documentation of Personnel Costs in Accordance with OMB Circular A-87

Finding Type. Immaterial Noncompliance / Significant Deficiency in Internal Control over Compliance (Allowable Costs / Cost Principles).

Program. ARRA - Energy Efficiency and Conservation Block Grant; U.S. Department of Energy; CFDA Number 81.128; Award Number BES-11-26. Passed through the State of Michigan Department of Energy, Labor and Economic Growth.

Criteria. OMB Circular No. A-87, Cost Principles for State, Local, and Indian Tribal Governments, requires that when employees work on multiple activities, the distribution of their salary or wages must be supported by personnel activity reports. The Circular requires these reports to reflect an after-the-fact distribution of actual activity of each employee; they must account for the total activity for which the employee is compensated; they must be prepared at least monthly and must coincide with one or more pay periods; and they must be signed by the employee. For employees charged entirely to one program, the use of semi-annual certifications is also permissible.

Condition. The City charged Treasury and City Manager personnel costs to the federal award which were determined based on estimates with no adjustment to actual. Timesheets or personnel activity reports were not prepared in accordance with requirements detailed in OMB Circular A-87 to support the allocation of personnel charges to the grant.

Cause. This condition was caused by management being unaware of the specific federal compliance requirements pertaining to payroll documentation requirements for employees that work on multiple activities.

Effect. As a result of this condition, the City did not fully comply with the documentation requirements applicable to personnel costs charged to this program.

Questioned Costs. No costs were required to be questioned as a result of the condition.

Recommendation. We recommend that the City review in detail the time and effort documentation requirements under OMB Circular A-87 and make necessary modifications to the existing processes. A single individual or department should be assigned the responsibility for identifying federal awards with personnel costs and ensuring that these costs are properly tracked and documented.

View of Responsible Officials. Management (City Treasurer and City Manager Department) became aware subsequent to the time actually worked on the grant that their time was eligible for reimbursement. Instead of producing time sheets for the past, management decided it would be appropriate to provide an estimate based on recalling the duties they performed for the grant and submit it for reimbursement. The reimbursement amount was a minimal portion of the grant, less than .1% of the grant proceeds. Management does understand the compliance requirements pertaining to payroll documentation for employees that work on multiple activities. This is evidenced by the City's grant manager providing timesheets for his time allocated to the grant, which was the significant portion of payroll reimbursement.

CITY OF TRAVERSE CITY, MICHIGAN

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2012

Finding 2011-1 - Material Audit Adjustments

During the 2011 audit, several material adjustments were identified and proposed to adjust the City's general ledger to the appropriate year-end balances. These adjustments included entries to record deferred revenue for the City and to present the financial statements on the accrual basis of accounting. As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements.

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