

City of Sandusky

Sandusky, Michigan

Single Audit Report

February 28, 2011

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**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***

To the Honorable Mayor and Members of the City Council
City of Sandusky
Sandusky, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandusky as of and for the year ended February 28, 2011, which collectively comprise City of Sandusky's basic financial statements and have issued our report thereon dated July 1, 2011. 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 City of Sandusky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Sandusky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Sandusky'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as noted at 2011-01. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Sandusky'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*.

We noted certain matters that we reported to management of City of Sandusky in a separate letter dated July 1, 2011.

City of Sandusky's response to the findings identified in our audit are described in the accompanying. We did not audit City of Sandusky's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

Yeo & Yeo, P.C.

Marlette, Michigan
July 1, 2011



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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

To the Honorable Mayor and Members of the City Council
City of Sandusky
Sandusky, Michigan

Compliance

We have audited City of Sandusky's compliance 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 City of Sandusky's major federal programs for the year ended February 28, 2011. City of Sandusky'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 each of its major federal programs is the responsibility of City of Sandusky's management. Our responsibility is to express an opinion on City of Sandusky'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 City of Sandusky'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 City of Sandusky's compliance with those requirements.

In our opinion, City of Sandusky complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended February 28, 2011.

Internal Control Over Compliance

Management of City of Sandusky 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 City of Sandusky'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 City of Sandusky'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.

Schedule of Expenditure of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Sandusky as of and for the year ended February 28, 2011, and have issued our report thereon dated July 1, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Sandusky'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 general purpose financial statements taken as a whole.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

Yeo & Yeo, P.C.

Marlette, Michigan
July 1, 2011

City of Sandusky
Schedule of Expenditures of Federal Awards
For Year Ended February 28, 2011

Federal Grantor Pass-Through Grantor Program Title Grantor Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development Lower Income Housing Assistance Program	14.856	\$ <u>235,454</u>
U.S. Department of Justice COPS Hiring Program 2010UMWX0161	16.710	<u>2,539</u>
U.S. Department of Transportation Passed through Michigan Department of Transportation Airport Improvement Program 08-0163 Airport Improvement Program 10-0062 Airport Improvement Program 11-0043	20.106	7,988 215,100 <u>21,578</u> <u>244,666</u>
Passed through Michigan Department of Transportation ARRA 1074 (0007) Highway Planning and Construction	20.205	<u>293,714</u>
U.S. Department of Energy Passed through Michigan Department of Labor and Economic Growth Energy Efficiency and Conservation Block Grant BES-10-108	81.128	<u>50,000</u>
Total expenditures of Federal Awards		<u>\$ <u>826,373</u></u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

City of Sandusky
Notes to the Schedule of Expenditures of Federal Awards
February 28, 2011

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Sandusky and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Sandusky
Schedule of Findings and Questioned Costs
February 28, 2011

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

Finding 2011-01 Significant Deficiency

Criteria: Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition: Several accounts required audit adjustments in order for the financial statements to be fairly stated.

Context: Adjustments were posted as a result of audit procedures in order to fairly state the balances.

Cause/Effect: Adjustments were not made to all balance sheet and material revenue and expense accounts prior to year end close.

Recommendations: As many adjustments as possible should be made prior to providing the year end trial balance to the auditors. If these journal entries are completed in February, this will provide more accurate financial information for the City Council to use to make decisions closer to year end as the audit adjustments aren't usually posted until after the audit is complete.

Management's Response: The City will work on developing a process to identify and record adjusting journal entries prior to the audit which will then reduce the number of audit adjustments.

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for the Federal Awards for the year ended February 28, 2011.

City of Sandusky
Summary Schedule of Prior Audit Findings
February 28, 2010

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

Finding 2010-01 Significant Deficiency

Criteria: Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition: Several accounts required audit adjustments in order for the financial statements to be fairly stated.

Context: Adjustments were posted as a result of audit procedures in order to fairly state the balances.

Cause/Effect: Adjustments were not made to all balance sheet and material revenue and expense accounts prior to year end close.

Recommendations: As many adjustments as possible should be made prior to providing the year end trial balance to the auditors. If these journal entries are completed in February, this will provide more accurate financial information for the City Council to use to make decisions closer to year end as the audit adjustments aren't usually posted until after the audit is complete.

Management's Response: The City will work on developing a process to identify and record adjusting journal entries prior to the audit which will then reduce the number of audit adjustments.

Current Status: Management is still working on a process to correct this deficiency.

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for the Federal Awards for the year ended February 28, 2010.