



City and Borough of Sitka, Alaska

Federal and State Single Audit Reports
Year Ended June 30, 2013

City and Borough of Sitka, Alaska

Federal and State Single Audit Reports
Year Ended June 30, 2013

City and Borough of Sitka, Alaska

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Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's 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*

Honorable Mayor and Borough Assembly
City and Borough of Sitka, Alaska

We have audited, in accordance with the 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, 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 City and Borough of Sitka, Alaska, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City and Borough of Sitka's basic financial statements and have issued our report thereon dated February 10, 2014. Our report includes a reference to other auditors who audited the financial statements of Sitka Community Hospital, as described in our report on City and Borough of Sitka's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City and Borough of Sitka's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City and Borough of Sitka's internal control. Accordingly, we do not express an opinion on the effectiveness of City and Borough of Sitka's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City and Borough of Sitka's financial statements are free from 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*.

City and Borough of Sitka's Response to Findings

City and Borough of Sitka's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City and Borough of Sitka's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Anchorage, Alaska
February 10, 2014



Tel: 907-278-8878
Fax: 907-278-5779
www.bdo.com

3601 C Street, Suite 600
Anchorage, AK 99503

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Honorable Mayor and Borough Assembly
City and Borough of Sitka, Alaska

Report on Compliance for Each Major Federal Program

We have audited City and Borough of Sitka'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 and Borough of Sitka's major federal programs for the year ended June 30, 2013. City and Borough of Sitka's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

City and Borough of Sitka's basic financial statements include the operations of its component unit, the Sitka School District which received \$2,553,758 of federal awards which is not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2013. Our audit, described below, did not include the operations of Sitka School District because it was subjected to a separate audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City and Borough of Sitka's major federal programs based on our audit of the types of compliance requirements referred to above. 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 and Borough of Sitka'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 on compliance for each major federal program. However, our audit does not provide a legal determination of City and Borough of Sitka's compliance.

Opinion on Each Major Federal Program

In our opinion, City and Borough of Sitka complied, in all material respects, with the types of compliance 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, 2013.

Report on Internal Control Over Compliance

Management of City and Borough of Sitka is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City and Borough of Sitka's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 and Borough of Sitka'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. *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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 City and Borough of Sitka as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City and Borough of Sitka's basic financial statements. We issued our report thereon dated February 10, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BDO USA, LLP

Anchorage, Alaska
February 10, 2014



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Fax: 907-278-5779
www.bdo.com

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Anchorage, AK 99503

Independent Auditor's Report on Compliance for Each Major State Program; Report on Internal Control Over Compliance; and Report on the Schedule of State Financial Assistance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Honorable Mayor and Borough Assembly
City and Borough of Sitka, Alaska

Report on Compliance for Each Major State Program

We have audited City and Borough of Sitka's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of City and Borough of Sitka's major state programs for the year ended June 30, 2013. City and Borough of Sitka's major state programs are identified in the accompanying Schedule of State Financial Assistance.

City and Borough of Sitka's basic financial statements include the operations of its component unit, the Sitka School District which received \$18,179,642 of state awards which is not included in the Schedule of State Financial Assistance for the year ended June 30, 2013. Our audit, described below, did not include the operations of Sitka School District because it was subjected to a separate audit in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City and Borough of Sitka's major state programs based on our audit of the types of compliance requirements referred to above. 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 the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* 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 state program occurred. An audit includes examining, on a test basis, evidence about City and Borough of Sitka'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 on compliance for each major state program. However, our audit does not provide a legal determination of City and Borough of Sitka's compliance.

Opinion on Each Major State Program

In our opinion, City and Borough of Sitka complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of City and Borough of Sitka is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City and Borough of Sitka's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program, and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, 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 and Borough of Sitka'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 state 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 state program will not be prevented, or detected and corrected, on a timely basis. *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 state 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of State Financial Assistance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

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 City and Borough of Sitka as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City and Borough of Sitka's basic financial statements. We issued our report thereon dated February 10, 2014 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of State Financial Assistance is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of State Financial Assistance is fairly stated in all material respects, in relation to the basic financial statements as a whole.

BDO USA, LLP

Anchorage, Alaska
February 10, 2014

City and Borough of Sitka, Alaska
Schedule of Expenditures of Federal Awards

| <i>Year Ended June 30, 2013</i> | Grant Number | Catalog of Federal Domestic Assistance Number | Total Grant Award | Expend- itures |
|--|--------------------|---|-------------------------|-------------------|
| Department of Agriculture | | | | |
| 2012 Volunteer Fire Assistance Grant | FY12 | 10.664 | \$ 16,894 | 11,413 |
| Passed through the State of Alaska Department of Commerce, Community and Economic Development - National Forest Receipts | FY13NFR | 10.665 | 976,645 | <u>976,645</u> |
| Total Department of Agriculture | | | | <u>988,058</u> |
| Department of the Commerce | | | | |
| Passed through the State of Alaska Department of Commerce, Community and Economic Development - Alaska OWL Project - AWE Early Literacy Stations | OWL-13-751-01 | 11.557 | 2,953 | <u>2,953</u> |
| Department of the Interior | | | | |
| Payment in Lieu of Taxes 2013 | - | 15.226 | 610,074 | <u>610,074</u> |
| ANB/ANS Historical Panels | 11562 | 15.904 | 13,761 | 12,361 |
| Fenestration: North Pacific Hall, Sheldon Jackson Campus | 12563 | 15.904 | 22,365 | 4,572 |
| Total CFDA 15.904 | | | | <u>16,933</u> |
| Passed through the State of Alaska Department of Commerce, Community and Economic Development - Swan Lake Restoration | 10-CIAP-014 | 15.668 | 771,236 | <u>22,650</u> |
| Passed through the State of Alaska Department of Natural Resources: | | | | |
| National Historical Park Patrol | - | 15.224 | 2,500 | 2,500 |
| Turnaround Skate Park | 02-00393 | 15.916 | 219,800 | 37,925 |
| Total Department of the Interior | | | | <u>690,082</u> |
| Department of Justice | | | | |
| COPS Hiring Recovery Program | 2009-RKWX-0002 | 16.710 | 264,200 | 9,889 |
| COPS Hiring Recovery Program | 2011-UMWX-002 | 16.710 | 326,835 | 72,084 |
| Total CFDA 16.710 | | | | <u>81,973</u> |
| SEACAD/SEANET - Task Force | JAG-13-005 | 16.738 | 293,129 | 213,088 |
| Total Department of Justice | | | | <u>295,061</u> |
| Department of Transportation | | | | |
| Sitka Seaplane Base, Sitka, AK Planning Study | 3-02-0267-001-2010 | 20.106 | 300,000 | 1,251 |
| Sawmill Creek Intermodal Facility | AK-03-0077-00 | 20.500 | 1,941,747 | 18,120 |
| Total Department of Transportation | | | | <u>19,371</u> |

City and Borough of Sitka, Alaska
Schedule of Expenditures of Federal Awards, continued

| <i>Year Ended June 30, 2013</i> | Grant Number | Catalog of Federal Domestic Assistance Number | Total Grant Award | Expend- itures |
|--|-----------------|---|-------------------------|-------------------|
| Environmental Protection Agency | | | | |
| Passed through State of Alaska Department of Environmental Conservation: | | | | |
| Alaska Clean Water Loans: | | | | |
| Japonski Island Sewer Lift Station Upgrades - Loan | 783391 | 66.458 | \$ 1,547,700 | 430,863 |
| Japonski Island Sewer Lift Station Upgrades - Subsidy | 783391 | 66.458 | 192,300 | 47,148 |
| Monastary Street Sewer Main Replacement - Loan | 783401 | 66.458 | 859,103 | 36,519 |
| Monastary Street Sewer Main Replacement - Subsidy | 783401 | 66.458 | 72,897 | 8,037 |
| Oja Street Sewer Main Replacement - Loan - ARRA | 783271 | 66.458 | 24,032 | 1,492 |
| Oja Street Sewer Main Replacement - Subsidy - ARRA | 783271 | 66.458 | 216,292 | 13,427 |
| Brady Street Sewer Rehabilitation - Loan - ARRA | 783261 | 66.458 | 41,394 | 2,346 |
| Brady Street Sewer Rehabilitation - Subsidy - ARRA | 783261 | 66.458 | 372,541 | 21,113 |
| Sawmill Creek Road Sewer Upgrade Phase III - Loan | 783282 | 66.458 | 184,369 | 10,625 |
| Baranof Street Sewer Main Replacement - Loan | 783091 | 66.458 | 652,000 | 80,078 |
| Baranof Street Sewer Main Replacement - Subsidy | 783091 | 66.458 | 88,000 | 13,387 |
| Total CFDA 66.458 | | | | 665,035 |
| Alaska Drinking Water Loans: | | | | |
| UV Disinfection Facility - Loan | 783431 | 66.468 | 1,500,000 | 45,341 |
| UV Disinfection Facility - Subsidy | 783431 | 66.468 | 2,500,000 | 38,406 |
| Oja Street Drinking Water System Replacement - Loan - ARRA | 783351 | 66.468 | 28,500 | 1,765 |
| Oja Street Drinking Water System Replacement - Subsidy - ARRA | 783351 | 66.468 | 256,500 | 15,890 |
| Monastary Street Water Main Rehabilitation - Loan | 783441 | 66.468 | 782,000 | 42,633 |
| Baranof Street Water Main Replacement- Loan | 783501 | 66.468 | 441,140 | 40,968 |
| Baranof Street Water Main Replacement- Subsidy | 783501 | 66.468 | 243,860 | 31,865 |
| Total CFDA 66.468 | | | | 216,868 |
| Stormwater Master Plan and Management Guidelines | ACWA 13-03 | 66.605 | 43,388 | 43,388 |
| Total Environmental Protection Agency | | | | 925,291 |
| Department of Homeland Security | | | | |
| Passed through State of Alaska Division of Homeland Security and Emergency Management: | | | | |
| 2012 Emergency Management Performance Grant | 12 EMPG-GR35585 | 97.042 | 30,000 | 30,000 |
| 2011 State Homeland Security Program | 11 SHSP-GR34076 | 97.067 | 564,000 | 92,181 |
| Total Department of Homeland Security | | | | 122,181 |
| Total Expenditures of Federal Awards | | | \$ | 3,042,997 |

Note1: Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and Borough of Sitka and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

City and Borough of Sitka, Alaska
Schedule of State Financial Assistance

| <i>Year Ended June 30, 2013</i> | Grant Number | Total Grant Award | Expend- itures |
|---|-----------------|-------------------------|-------------------|
| Department of Military & Veteran Affairs | | | |
| 2013 Local Emergency Planning Committee Grant | 13LEPC-GR35602 | \$ 17,772 | <u>17,772</u> |
| Department of Commerce, Community and Economic Development | | | |
| Moller Park Ball Field Upgrade | 07-DC-199 | 110,000 | 3,511 |
| Benchland Subdivision | 07-DC-494 | 5,000,000 | 5,524 |
| Tony Hrebar FY09 Range Improvement | 09-DC-108 | 8,000 | 4,255 |
| Swan Lake Dock & Pedestrian Improvement | 09-DC-110 | 100,000 | 94,452 |
| * Moller Park Baseball Field Improvement | 10-RR-009 | 450,000 | 418,408 |
| * Crescent Harbor Sidewalk Widening | 11-DC-637 | 1,000,000 | 450,394 |
| * Commercial Passenger Vessel Facilities and Visitor Improvement | 11-DC-644 | 4,500,000 | 1,386,295 |
| * Commercial Passenger Vessel and Visitor Facility Improvement | 12-DC-616 | 3,000,000 | 500,000 |
| Community Hospital Roof Replacement | 13-DC-467 | 1,200,000 | 42,217 |
| Eagle Way and Old Harbor Mountain Road Upgrade and Ownership Transfer | 13-DC-481 | 1,500,000 | 32 |
| Baranof Warm Spring Dock Improvements and Ownership Transfer | 13-DC-497 | 1,900,000 | 63 |
| Nelson Logging Road Upgrade and Ownership Transfer | 13-DC-517 | 2,343,000 | 63 |
| Failed Collector Streets Rehabilitation | 13-DC-533 | 2,900,000 | 14,526 |
| Commercial Passenger Vessel and Visitor Facility Improvement | 13-DC-581 | 4,500,000 | 216,707 |
| Kattleson Memorial Library | 13-DC-596 | 5,700,000 | 37,084 |
| * Supplemental & Emergency Diesel Generation | 13-DC-607 | 7,125,000 | 1,884,515 |
| Sawmill Cove Industrial Park Dock | 13-GO-015 | 7,500,000 | 65 |
| Shared Fisheries Business Tax | 2013 | 649 | 649 |
| * State Revenue Sharing | 2013 | 1,300,769 | <u>1,300,769</u> |
| Total Department of Commerce, Community and Economic Development | | | <u>6,359,529</u> |
| Alaska Energy Authority | | | |
| * Blue Lake Hydroelectric Project | 2195311 | 20,500,000 | 9,029,234 |
| * Blue Lake Hydroelectric Project | 7910013 | 28,450,000 | 6,054,165 |
| Takatiz Hydroelectric Feasibility | 2195418 | 2,000,000 | 201,541 |
| Total Alaska Energy Authority | | | <u>15,284,940</u> |
| Department of Corrections | | | |
| Local Community Jail Program | 2013 | 20,000 | <u>13,252</u> |
| Department of Environmental Conservation | | | |
| Cove Lift Station Replacement | 78315 | 150,000 | 24,113 |
| UV Disinfection Facility | 78317 | 5,561,000 | 86,000 |
| * Baranof Street Sewer and Water Main Replacement | 78319 | 997,500 | 465,597 |
| Total Department of Environmental Conservation | | | <u>575,710</u> |

City and Borough of Sitka, Alaska
Schedule of State Financial Assistance, continued

| <i>Year Ended June 30, 2013</i> | Grant Number | Total Grant Award | Expend- itures |
|--|-----------------|-------------------------|--------------------------|
| Department of Education and Early Development | | | |
| Public Library Assistance | PLA1375169 | \$ 6,500 | 6,500 |
| * Pacific High School Renovation | GR-10-006 | 1,736,513 | 1,108,741 |
| * Debt Reimbursement Program | | 2,509,428 | 2,509,428 |
| Cross Trails Improvements | 12-DM-140 | 41,000 | 41,000 |
| Total Department of Education and Early Development | | | <u>3,665,669</u> |
| Department of Administration | | | |
| * State PERS Relief | 2013 | 1,480,775 | 1,480,775 |
| Auto Tax | 2013 | 94,366 | 94,366 |
| Total Department of Administration | | | <u>1,575,141</u> |
| Department of Revenue | | | |
| Liquor Tax | 2013 | 26,925 | 26,925 |
| * Fisheries Raw Fish Tax | 2013 | 1,183,956 | 1,183,956 |
| Fishery Resource Landing Tax | 2013 | 57,397 | 57,397 |
| Commercial Passenger Vessel Tax | 2013 | 135,355 | 135,355 |
| Total Department of Revenue | | | <u>1,403,633</u> |
| Total State Financial Assistance | | \$ | <u>28,895,646</u> |

Note1: Basis of Presentation

The Schedule of State Financial Assistance includes the State grant activity of the City and Borough of Sitka and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

* Indicates a major program

City and Borough of Sitka, Alaska

Schedule of Findings and Questioned Costs Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

| | | |
|---|------------------|-----------------------------|
| Material weakness(es) identified? | <u> X </u> yes | <u> </u> no |
| Significant deficiency(ies) identified? | <u> X </u> yes | <u> </u> (none reported) |

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

| | | |
|---|-----------------|------------------------------|
| Material weakness(es) identified? | <u> </u> yes | <u> X </u> no |
| Significant deficiency(ies) identified? | <u> </u> yes | <u> X </u> (none reported) |

Type of auditor's report issued on compliance for major programs: Unmodified

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

Identification of major programs:

| <i>CFDA Number</i> | <i>Name of Federal Program or Cluster</i> | <i>Agency</i> |
|--------------------|---|---------------------------------|
| 66.458 | Capitalization Grants for Clean Water State Revolving Funds | Environmental Protection Agency |
| 10.665 | National Forest Receipts | Department of Agriculture |

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

Auditee qualified as low-risk auditee? X yes no

State Financial Assistance

Internal control over major programs:

| | | |
|---|-----------------|------------------------------|
| Material weakness(es) identified? | <u> </u> yes | <u> X </u> no |
| Significant deficiency(ies) identified? | <u> </u> yes | <u> X </u> (none reported) |

Type of auditor's report issued on compliance for major programs: Unmodified

Dollar threshold used to distinguish between a major program: \$ 300,000

City and Borough of Sitka, Alaska

Schedule of Findings and Questioned Costs, continued

| |
|---|
| Section II - Financial Statement Findings Required to be Reported in Accordance with Government Auditing Standards |
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Finding 2013-001 General Ledger Reconciliation - Material Weakness

Criteria Section A1.08 of Government Auditing Standards states that "management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported." Internal controls over financial reporting, should allow management to prevent, or detect and correct misstatements on a timely basis.

Condition There were significant adjustments made to the general ledger at the City and Borough during the course of the audit, which resulted in a significant change in revenue and expense. Specifically, adjustments were made to Equity, Sales Tax AR, Transfers, Interfund Billings, Accrued Leave and Debt.

Context The goal of the general ledger reconciliation process is to produce accurate financial statements for review by management in order to assist in the decision-making process, throughout the year.

Effect Individual accounts were misstated, leading to revenue and expense being misstated.

Cause Internal controls were not established to ensure that all general ledger accounts were properly reconciled and adjusted.

Recommendation City and Borough staff must closely review the activity in the General Ledger. Information should be reviewed for completeness and accuracy. Work of staff should be reviewed and double checked against the general ledger balances.

Management Response Refer to the corrective action plan.

Finding 2013-002 Recording of Long Term Debt - Material Weakness

Criteria During the year, the City and Borough issued long term debt to finance electric and harbor fund project. The accounting for the issuance of long term debt was not properly accounted for in the current year.

Condition The proceeds from the issuance of debt were improperly recorded.

Context Debt issuance costs were incorrectly accounted for resulting in understated long term liability and related bond premium and bond issuance costs.

Effect Material adjustment was required to correct the balances.

City and Borough of Sitka, Alaska

Schedule of Findings and Questioned Costs, continued

Finding 2013-002 Recording of Long Term Debt - Material Weakness, continued

Cause A misunderstanding of the accounting rules for modified accrual versus full accrual on debt issuances caused these balances to be improperly recorded.

Recommendation We recommend the City and Borough staff review relevant accounting guidance and consult with a knowledgeable third party when recording infrequent and complex accounting entries.

Management Response Refer to the corrective action plan.

Finding 2013-003 Interest Capitalization - Significant Deficiency

Criteria GASB No 62 regarding *Capitalization of Interest Cost* is applicable for business type activities, which states "If an asset requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during that period as a result of expenditures for the asset is part of the historical cost of acquiring the asset."

Condition The interest expense incurred from bonds issued for the construction of the Blue Lake Dam project was not capitalized and resulted in a material adjustment to expense.

Context The historical cost of an asset should include costs necessarily incurred in bringing the asset to location and for its intended use. Interest incurred on bonds directly related to the financing of construction is included in this concept.

Effect By not capitalizing interest expense, the City overstated expense in the current year and would subsequently reduce depreciation expense in future periods.

Cause The City and Borough did have an effective control in place to identify and evaluate interest expense above a material threshold that should have been capitalized as part of the historic cost of this project.

Recommendation City and Borough staff should have a control in place which allows for a high level review of the potential for interest capitalization during construction projects.

Management Response Refer to the corrective action plan.

City and Borough of Sitka, Alaska

Schedule of Findings and Questioned Costs, continued

Section III - Federal Award Findings and Questioned Costs

None noted.

Section IV - State Award Findings and Questioned Costs

None noted.

City and Borough of Sitka, Alaska

Summary Schedule of Prior Audit Findings *Year Ended June 30, 2013*

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| Financial Statement Findings Required to be Reported in Accordance with <i>Government Auditing Standards</i> |
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Finding 2012-001 General Ledger Reconciliation

Condition There were significant adjustments made to the general ledger at the City and Borough during the course of the audit, which resulted in a significant change in revenues and expense. Adjustments were made to revenues, expenses, transfers, receivables, and payables.

Status Not considered resolved. See Finding 2013-001.

City and Borough of Sitka, Alaska

Corrective Action Plan Year Ended June 30, 2013

Contact Michael Middleton
Deputy Finance Director
City and Borough of Sitka, Alaska
(907)747-4050 mikem@cityofsitka.com

Financial Statement Findings

Finding 2013-001 General Ledger Reconciliation

Corrective Action Reconciliations of accounts will be strengthened and reviewed to avoid future potential misstatements. All closing entries are being compiled and listed to create a master check list used to ensure year-end adjustments are not missed. This will complement the reconciliations by highlighting once-a-year entries.

Expected Completion This plan is currently being implemented.

Finding 2013-002 Recording of Long Term Debt - Material Weakness

Corrective Action The proper entries to record the debt have been determined and a template is now set up. This will ensure the correct entry of long term debt in the future.

Expected Completion This plan is currently being implemented.

Finding 2013-003 Interest Capitalization - Significant Deficiency

Corrective Action The appropriate interest paid for financing of projects will be capitalized. This is now a standard entry staff will make with at year end or completion of a project.

Expected Completion This plan is currently being implemented.