



City and Borough of Sitka, Alaska

Federal and State Single Audit Reports
Year Ended June 30, 2016

City and Borough of Sitka, Alaska

Federal and State Single Audit Reports
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City and Borough of Sitka, Alaska

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3601 C Street, Suite 600
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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, 2016, 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 March 30, 2017. 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 auditors' 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 of the financial statements, 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.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a material weaknesses.

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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
March 30, 2017



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3601 C Street, Suite 600
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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 the Uniform Guidance

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 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, 2016. 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 \$2,567,090 of federal awards which is not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2016. 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 Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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. 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2016, 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 March 30, 2017, 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 the Uniform Guidance 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
March 30, 2017



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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, 2016. 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 \$15,713,697 of state awards which is not included in the Schedule of State Financial Assistance for the year ended June 30, 2016. 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, 2016.

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, 2016, 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 March 30, 2017 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
March 30, 2017

City and Borough of Sitka, Alaska
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Department of Agriculture				
Forest Service Schools and Roads Cluster - National Forest Receipts	10.665		\$ 272,483	\$ 544,967
Department of the Homeland Security				
Passed through the State of Alaska Department of Military and Veterans Affairs:				
2015 Southeast Rains	97.036	AK-15-254	-	764,998
2013 State Homeland Security Program	97.067	13-SHSP-GR34078	-	(395)
2014 State Homeland Security Program	97.067	14SHSP-GR34094	-	98,449
2015 State Homeland Security Program	97.067	20SHSP-GY15	-	65,744
Total CFDA 97.067			-	163,798
Total Department of Homeland Security			-	928,796
Department of the Interior				
Payment in Lieu of Taxes 2016	15.226		-	714,816
Passed through the State of Alaska Department of Commerce, Community and Economic Development - Swan Lake Restoration	15.668	10-CIAP-014	-	17,598
Passed through the State of Alaska Department of Natural Resources:				
North Pacific Hall Façade Restoration	15.904	14608	-	16,157
Japonski Island Boathouse Doors and West Wall	15.904	15015	-	7,914
Total CFDA 15.904			-	24,071
Total Department of the Interior			-	756,485
Department of Justice				
COPS Hiring Program	16.710		-	15,524
COPS Hiring Program	16.710		-	39,869
Total CFDA 16.710			-	55,393
Bullet Proof Vest Program	16.607		-	2,182
Passed through the State of Alaska Department of Public Safety				
Edward Byrne Memorial Justice Assistance Grant	16.738	JAG 16-206	-	117,895
Total Department of Justice			-	175,470
Department of Transportation				
Sitka Seaplane Base, Sitka, AK Planning Study	20.106		-	45,781
Highway Planning and Construction Cluster:				
Cross Trail Multimodal Pathway Phase 4 & 5	20.205		-	325,109
Cross Trail Multimodal Pathway Phase 6	20.205		-	41,498
Total Highway Planning and Construction Cluster			-	366,607
Total Department of Transportation			-	412,388

See accompanying notes to the schedule.

City and Borough of Sitka, Alaska
Schedule of Expenditures of Federal Awards, continued
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Environmental Protection Agency				
Passed through State of Alaska Department of Environmental Conservation:				
Clean Water State Revolving Fund Cluster:				
Hollywood Way and New Archangel Street Sewer - Loan	66.458	783511	\$ -	\$ 23,340
Hollywood Way and New Archangel Street Sewer - Subsidy	66.458	783511	-	71,802
Monastery and Baranof Sewer System - Loan	66.458	783411	-	242,682
Baranof Street Sewer Replacement - Subsidy	66.458	783091	-	78,135
Total Clean Water State Revolving Fund Cluster			-	415,959
Drinking Water State Revolving Fund Cluster:				
Hollywood Way Water Main Replacement - Loan	66.468	783521	-	73,292
UV Disinfection Facility - Subsidy	66.468	783431	-	900,000
Total Drinking Water State Revolving Fund Cluster			-	973,292
Total Environmental Protection Agency			-	1,389,251
Total Expenditures of Federal Awards			\$ 272,483	\$ 4,207,357

See accompanying notes to the schedule.

City and Borough of Sitka, Alaska
Schedule of State Financial Assistance
Year Ended June 30, 2016

State Grant Title	Grant Number	Total Grant Award	State Share of Expenditures
Department of Military & Veteran Affairs			
2015 Local Emergency Planning Committee Grant	20LEPC-GY16	\$ 14,343	\$ 14,343
Department of Commerce, Community and Economic Development			
Takatza Lake Hydroelectric Project Planning and Analysis	13-DC-420	770,000	363
* Commercial Passenger Vessel Lightering Facility Improvement	10-DC-025	2,000,000	788,979
* Commercial Passenger Vessel Facilities and Visitor Improvement	11-DC-644	4,500,000	2,075,805
* Commercial Passenger Vessel Facilities and Visitor Improvement	12-DC-616	2,500,000	2,500,000
* Commercial Passenger Vessel Facilities and Visitor Improvement	13-DC-581	4,500,000	3,700,000
Commercial Passenger Vessel Facilities and Visitor Improvement	15-DC-146	3,300,000	261,054
Baranof Warm Spring Dock Improvements and Ownership Transfer	13-DC-497	1,900,000	112,995
Sitka High School Vocational Education Facility	13-DC-534	2,900,000	212,458
* Failed Collector Streets Rehabilitation	13-DC-533	2,900,000	356,874
* Kettleon Memorial Library Expansion	13-DC-596	5,700,000	2,657,840
Nelson Logging Road Upgrade and Ownership Transfer	13-DC-517	2,343,000	194,696
Eagle Way and Old Harbor Mountain Road Upgrades	13-DC-481	1,500,000	91,362
Sawmill Cove Industrial Park Dock	13-GO-015	7,500,000	67,225
Shared Fisheries Business Tax	2016	31,363	31,363
* State Revenue Sharing	2016	869,394	869,394
Total Department of Commerce, Community and Economic Development			<u>13,920,408</u>
Alaska Energy Authority			
* Blue Lake Hydroelectric Expansion Project	7910013	28,450,000	2,238,614
Sitka Centennial Hall Air Source Heat Pump	7071011	232,600	227,964
Total Alaska Energy Authority			<u>2,466,578</u>
Department of Environmental Conservation			
* UV Disinfection Facility	78317	5,561,000	405,426
Hollywood Way and New Archangel Street Water and Sewer	78321	552,300	100,595
Hollywood Way and New Archangel Street Water and Sewer	783511	500,000	19,200
Jeff Davis Street Water and Sewer Improvements	78322	644,000	121,256
* Monastery and Baranof Water and Sewer - SMC to DeGroff	78320	763,000	588,711
Total Department of Environmental Conservation			<u>1,235,188</u>

See accompanying notes to the schedule.

City and Borough of Sitka, Alaska
Schedule of State Financial Assistance, continued
Year Ended June 30, 2016

State Grant Title	Grant Number	Total Grant Award	State Share of Expenditures
Department of Education and Early Development			
Public Library Assistance	2016	\$ 6,650	\$ 6,650
* Debt Reimbursement Program	FY16	2,484,239	<u>2,484,239</u>
Total Department of Education and Early Development			<u>2,490,889</u>
Department of Administration			
* State PERS Relief	2016	637,685	637,685
Auto Tax	2016	92,829	<u>92,829</u>
Total Department of Administration			<u>730,514</u>
Department of Transportation and Public Facilities			
* Sitka Transient Float Replacement Project	15-HG-002	2,700,000	<u>2,142,661</u>
Total Department of Transportation and Public Facilities			<u>2,142,661</u>
Department of Revenue			
Liquor Tax	2016	25,125	25,125
* Fisheries Raw Fish Tax	2016	879,793	879,793
Commercial Passenger Vessel Tax	2016	218,350	<u>218,350</u>
Total Department of Revenue			<u>1,123,268</u>
Total State Financial Assistance			<u>\$ 24,123,849</u>

See accompanying notes to the schedule.

* Indicates a State Major Program

City and Borough of Sitka, Alaska

Notes to the Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance Year Ended June 30, 2016

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance (the "Schedules") includes the federal and state grant activity of City and Borough of Sitka, Alaska under programs of the federal and state government for the year ended June 30, 2016. The information in these schedules is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedules presents only a selected portion of the operations of the City and Borough of Sitka, it is not intended to and does not present the financial position, changes in net position or cash flows of City and Borough of Sitka.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule, if any, represent adjustments or credits made in the normal course of business to amount reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

3. Indirect Cost Rate

The City and Borough of Sitka has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. PERS On-Behalf

The City and Borough of Sitka has recorded \$637,685 in PERS On-Behalf payments in the Schedule of State Financial Assistance. This represents the PERS relief payment appropriated and transferred into the plan during FY2016.

In the governmental fund financial statements, on-behalf revenue and expenditures have been recognized in the year appropriated and transferred to the plan. However, in the full accrual financial statements, GASB 68 provisions prescribe that on-behalf pension contributions in a special funding situation may only be recognized during the measurement period in which the plan recognizes the contributions, effectively creating a one-year timing difference between the cash contribution and revenue and expense recognition by the City and Borough.

As a result of these perspective and timing differences, amounts reported in the financial statements do not agree to the amounts reported on the Schedule of State Financial Assistance.

City and Borough of Sitka, Alaska

Schedule of Findings and Questioned Costs Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported

Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported

Type of auditor's report issued on compliance for major federal programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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Identification of major federal programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>
10.665	Forest Service School and Roads Cluster
15.226	Payment in Lieu of Taxes
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
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Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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State Financial Assistance

Type of auditor's report issued on compliance for major state programs:	Unmodified
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Internal control over major state programs:		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no (none reported)
Significant deficiency(ies) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> reported

Dollar threshold used to determine a state major program:	\$ 300,000
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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

Finding 2016-001 Capital Asset Activity and Related Debt - Material Weakness

Criteria Section A1.08 of *Government Auditing Standards* states that “management is responsible for ensuring that 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 Material adjustments for both governmental and business-type activities were required to correctly report the closure of capital project activity, capital assets, and the related debt activity for capital-related loans.

Context One material entry was made to correct a double posting of an addition to buildings. In addition, significant entries were required to true up equity, capital outlay expense, capital assets, transfers and debt as it related to capital asset activity. Significant errors were corrected related to the capital asset roll-forward schedules. In addition, debt balances for capital related loans were significantly adjusted.

Effect Individual accounts were misstated at year-end, leading to opening fund balance, capital assets, capital outlay, and long-term debt being misstated. Adjustments were required to correct the general ledger.

Cause Internal controls were not in place to ensure that all general ledger accounts were properly reconciled and adjusted for year-end GAAP based reporting. Turnover in the controller position was a contributing factor to the related adjustments.

Recommendation Staff should closely review the activity in the general ledger, capital project and capital asset records. Additional technical assistance should be employed to assist with the closeout of capital project funds and maintenance of capital asset records. We recommend management review the entries against the capital asset schedules, long term debt balances, and capital outlay expense on a timely basis to ensure errors are caught and corrected.

Management Response Refer to the corrective action plan.

Section III - Federal Award Findings and Questioned Costs

There were no findings and questioned costs for federal awards (as defined in section 2 CFR 200.516(a)) that are required to be reported.

Section IV - State Award Findings and Questioned Costs

There were no findings and questioned costs for State of Alaska awards (as defined in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*) that are required to be reported.



City and Borough of Sitka

100 Lincoln Street Sitka, Alaska 99835

Coast Guard City, USA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding 2015-001 - External Financial reporting - Material Weakness

Condition

Material adjustments were required to correctly report certain financial statement accounts. Specifically, audit adjustments were made to Equity, Interest Expense, Debt Amortization, Depreciation, Grant Revenue and Grant Receivables.

Status

Management has expended significant resources, and has made substantial progress, in identifying and implementing effective internal controls in this area. Management designed and implemented new reconciliation processes in FY2016, with associated schedules, for the review of entries for construction in progress related to capital projects. These reconciliations successfully identified several accounting errors prior to audit and allowed for timely correction.

It should be also noted that the substantial progress was achieved despite the absence of a key senior financial executive, the Controller, during the year-end close out and audit process. The Municipality's Controller departed the organization at the end of May, 2016 and the position remained vacant throughout year-end closeout and the subsequent audit. As a result, the Chief Financial and Administrative Officer assumed and performed the Controller's duties in addition to his own, personally overseeing audit preparation and the completion of year-end reconciliations and related work papers and schedules.

As committed to in a previous Corrective Action Plan, Management engaged external Certified Public Accountants (CPAs) to assist with year-end close out, with special focus on preparation for the single audit. With the involvement and assistance of these external CPAs, Management made substantial progress in reconciling roll-forward schedules to general ledger accounts and subsidiary ledgers for general fixed assets, with many of the reconciled differences attributable to prior periods. The addition of external professional accounting capacity is a strong additional internal control that management intends to continue to employ, subject to the availability of resources.

Elements of the prior year finding related to capital assets and related debt transactions were reported in finding 2016-001, as the Borough continues refining controls in these areas. Please refer to the corrective action plan.

Finding 2015-002 - Grant reconciliation - preparation of the state and federal expenditure schedules - material weakness

Condition

We noted several errors in the general ledger and in the state and federal award schedules.

Status

This item is resolved FY2016.



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CORRECTIVE ACTION PLAN

Finding 2016-001, Capital Asset Activity and Related Debt

Management Response

Management concurs that some accounting entries related to capital assets were recorded incorrectly. Staff notes, however, that errors were made during a period in which a key senior financial position, that of the Controller, was vacant. In addition, as noted by the auditors, marked improvement was obtained in regards to external financial reporting procedures.

Corrective Action

Management has successfully filled the vacant Controller position with a highly skilled professional, and, this employee will play a key role in overseeing accounting for capital assets and related debt going forward. With the Controller position now filled, Management plans to systematically review, in conjunction with its consulting CPAs, its accounting processes and procedures for capital asset activity. A key part of the review will be an examination of existing internal controls related to capital asset accounting, and, improvement of existing controls and/or implementation of additional internal controls.

Expected Completion

Corrective actions will be implemented in conjunction with the FY2017 external audit.

Contact Information

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