

**CITY AND BOROUGH OF SITKA, ALASKA**

Federal and State Single Audit Reports

Year Ended June 30, 2012

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# CITY AND BOROUGH OF SITKA, ALASKA

## Federal and State Single Audit Reports

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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  
Members of the Assembly  
City and Borough of Sitka, Alaska

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, 2012, which collectively comprise the Borough's basic financial statements and have issued our report thereon dated January 18, 2013. Our report includes a reference to other auditors. 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. Other auditors 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

Management of the City and Borough of Sitka is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City and Borough of Sitka'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 the City and Borough of Sitka's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City and Borough of Sitka'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 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.

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

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 previously. However, we identified a deficiency in internal control over financial reporting, described in the accompany schedule of findings and questioned costs as item 12-01 that we consider to be significant deficiency in internal control over financial reporting. 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 and Borough of Sitka'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*.

City and Borough of Sitka's response to the finding identified in our audit is described in the Schedule of Findings and Questioned Costs. We did not audit City and Borough of Sitka's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City and Borough of Sitka's management, Honorable Mayor and Members of the Assembly, others within the entity, federal and state awarding agencies, and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
January 18, 2013

Independent Auditor's 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

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

Compliance

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 the City and Borough's major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City and Borough of Sitka's management. Our responsibility is to express an opinion on City and Borough of Sitka's compliance based on our audit.

City and Borough of Sitka's basic financial statements include the operations of its component unit, the Sitka School District which received federal awards of \$2,556,245 which are not included in the Schedule of Expenditures of Federal Awards for the year ended June 30, 2012. 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.

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. Our audit does not provide a legal determination of City and Borough of Sitka's compliance with those requirements.

In our opinion, City and Borough of Sitka 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 June 30, 2012.

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

#### Internal Control Over Compliance

Management of City and Borough of Sitka 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 and Borough of Sitka'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 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.

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 Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City and Borough of Sitka, as of and for the year ended June 30, 2012, and have issued our report thereon dated January 18, 2013, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise City and Borough of Sitka's 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

This report is intended solely for the information and use of City and Borough of Sitka's management, Honorable Mayor and Members of the Assembly, 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.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
January 18, 2013

Independent Auditor's 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 the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

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

Compliance

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 the City and Borough's major state programs for the year ended June 30, 2012. City and Borough of Sitka's major state programs are identified in the accompanying Schedule of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of City and Borough of Sitka's management. Our responsibility is to express an opinion on City and Borough of Sitka's compliance based on our audit.

City and Borough of Sitka's basic financial statements include the operations of its component unit, Sitka School District, which received state awards of \$15,971,708 which are not included in the Schedule of State Financial Assistance for the year ended June 30, 2012. 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*.

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. Our audit does not provide a legal determination of City and Borough of Sitka's compliance with those requirements.

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

In our opinion, City and Borough of Sitka 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 state programs for the year ended June 30, 2012.

#### Internal Control Over Compliance

Management of City and Borough of Sitka is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered City and Borough of Sitka's internal control over compliance with the requirements that could have a direct and material effect on a major state 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 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 the 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.

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.

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

Schedule of State Financial Assistance

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, 2012, and have issued our report thereon dated January 18, 2013, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise City and Borough of Sitka's financial statements. The accompanying Schedule of State Financial Assistance is presented for purposes of additional analysis as required by *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of State Financial Assistance is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of City and Borough of Sitka's management, Honorable Mayor and Members of the Assembly, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.

*Mikunda, Cottrell & Co.*

Anchorage, Alaska  
January 18, 2013

**CITY AND BOROUGH OF SITKA, ALASKA**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012

<u>Federal Grant Title</u>	<u>Grant Number</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Total Grant Award</u>	<u>Expenditures</u>
<b>Department of Agriculture</b>				
2012 Volunteer Fire Assistance Grant	FY12	10.664	\$ 16,894	5,482
Passed through the State of Alaska Department of Commerce, Community and Economic Development - National Forest Receipts	FY12NFR	10.665	1,073,350	<u>1,073,350</u>
Total Department of Agriculture				<u>1,078,832</u>
<b>Department of the Interior</b>				
Passed through the Bureau of Indian Affairs and Sitka Tribe of Alaska - Indian River Road Improvements Project	FY2010 IRR TIP	15.033	225,000	23,968
Payment in Lieu of Taxes 2012	-	15.226	592,104	592,104
Turnaround Skate Park	02-00393	15.916	219,800	<u>8,866</u>
Total Department of the Interior				<u>624,938</u>
<b>Department of Justice</b>				
ARRA - COPS Hiring Recovery Program	ARRA-2009-RKWX-0002	16.710	264,200	111,813
SEACAD/SEANET - Task Force	JAG-12-005	16.738	293,129	<u>249,025</u>
Total Department of Justice				<u>360,838</u>
<b>Department of Transportation</b>				
Passed through the National Park Service, Sitka National Historical Park - Pedestrian and Vehicular Traffic Improvements	FTA1454	20.520	80,000	<u>80,000</u>
Sitka Rocky Gutierrez Airport, Sitka, Alaska - Terminal Study PhII	3-02-0268-022-2008	20.106	200,000	20,935
Sitka Seaplane Base, Sitka, AK Planning Study	3-02-0267-001-2010	20.106	300,000	<u>82,665</u>
Total CFDA 20.106				<u>103,600</u>
Sawmill Creek Intermodal Facility	AK-03-0077-00	20.500	1,941,747	<u>167,907</u>
Total Department of Transportation				<u>351,507</u>
<b>Institute of Museum and Library Services</b>				
Passed through Department of Education and Early Development - Interlibrary Cooperation Grant - Saving the Legacy of Sheldon Jackson College	ILC-11-751-173	45.310	6,500	<u>4,750</u>

**CITY AND BOROUGH OF SITKA, ALASKA**  
Schedule of Expenditures of Federal Awards, continued

<u>Federal Grant Title</u>	<u>Grant Number</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Total Grant Award</u>	<u>Expend- itures</u>
<b>Environmental Protection Agency</b>				
Passed through State of Alaska Department of Environmental Conservation:				
Alaska Clean Water Loan-Japonski Island Sewer Lift Station Upgrades	783391	66.458	\$ 1,740,000	654,070
Alaska Clean Water Loan - Monastery Street Sewer Main Replacement	783401	66.458	932,000	<u>388,757</u>
Total CFDA 66.458				<u>1,042,827</u>
Alaska Clean Water Loan - Monastery Street Sewer Main Rehabilitation	783441	66.468	782,000	352,310
Alaska Drinking Water Loan - UV Disinfection Facility	783431	66.468	4,000,000	34,141
ARRA - Alaska Drinking Water Loan - Treated Water Storage Tank Coating and Cathodic Protection	783341	66.468	617,000	10,091
ARRA - Alaska Drinking Water Loan - Halibut Point Road Water Main Replacement	783181	66.468	465,513	5,000
ARRA - Alaska Drinking Water Loan - Mills Street Water Main Loop Installation	783321	66.468	199,000	<u>22,571</u>
Total CFDA 66.468				<u>424,113</u>
Stormwater Master Plan and Management Guidelines	ACWA 12-03	66.454	24,000	24,000
Stormwater Master Plan and Management Guidelines	ACWA 12-03	66.605	10,000	<u>10,000</u>
Total Environmental Protection Agency				<u>1,500,940</u>
<b>Department of Homeland Security</b>				
Passed through State of Alaska Department of Military and Veterans Affairs:				
2011 Emergency Management Performance Grant	11 EMPG-GR35584	97.042	30,000	28,126
2009 State Homeland Security Program	09 SHSP-GR34058	97.073	564,000	<u>27,426</u>
Total Department of Homeland Security				<u>55,552</u>
Total Federal Expenditures			\$	<u>3,977,357</u>

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

Year Ended June 30, 2012

<u>Name of Award</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>Expend- itures</u>
<b>Department of Military &amp; Veteran Affairs</b>			
2012 Local Emergency Planning Committee Grant	12 LEPC-AR35602	\$ 14,343	<u>14,343</u>
<b>Department of Commerce, Community and Economic Development</b>			
Moller Ballfield Upgrades	07-DC-199	110,000	7,497
Tony Hrebar Memorial Shooting Range Improvements	07-DC-203	50,000	1,052
* Benchland Subdivision Utilities	07-DC-494	5,000,000	226,823
Swan Lake Dock and Pedestrian Improvement	09-DC-110	100,000	5,300
Shooting Range Improvements	09-DC-108	8,000	2,117
Commercial Passenger Vessel Lightering Facility Improvements	10-DC-025	2,000,000	759
* Commercial Passenger Vessel Lightering Facilities and Visitor Improvements	11-DC-644	4,500,000	338,527
Shared Fisheries Business Tax Program	-	50,670	50,670
* State Revenue Sharing	-	1,228,691	1,228,691
Sitka Renewable Energy Feasibility Study for Wastewater Treatment Plant	7040072	20,000	16,699
Sitka Renewable Energy Feasibility for Centennial Hall and Library	7040071	30,000	30,000
* Blue Lake Hydro Project	2195311	12,500,000	4,210,665
* Takatz Hydroelectric Feasibility	2195418	2,000,000	<u>659,079</u>
Total Department of Commerce, Community and Economic Development			<u>6,777,879</u>
<b>Department of Corrections</b>			
Local Community Jail Programs	-	20,000	<u>6,748</u>
<b>Department of Environmental Conservation</b>			
Cove Lift Station Replacement	78315	150,000	213
UV Disinfection Facility	78317	3,500,000	<u>2,007</u>
Total Department of Environmental Conservation			<u>2,220</u>
<b>Department of Motor Vehicles</b>			
Auto Tax	-	88,438	<u>88,438</u>
<b>Department of Education and Early Development</b>			
Public Library Assistance	PLA1275169	6,500	6,500
* Pacific High School Renovation	GR-10-006	1,736,513	129,750
* Debt Reimbursement Program	-	2,471,846	<u>2,471,846</u>
Total Department of Education and Early Development			<u>2,608,096</u>
<b>Department of Administration</b>			
* State PERS Relief	-	1,205,079	<u>1,205,079</u>

**CITY AND BOROUGH OF SITKA, ALASKA**

<u>Name of Award</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>Expend- itures</u>
<b>Department of Revenue</b>			
Liquor Tax	-	\$ 21,250	21,250
* Fisheries Raw Fish Tax	-	1,256,103	1,256,103
* Commercial Passenger Vessel Tax	-	414,130	414,130
Total Department of Revenue			<u>1,691,483</u>
 Total State Financial Assistance		\$	<u>12,394,286</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, 2012

**I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

**Federal Financial Assistance**

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes  no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	National Forest Receipts
15.226	Payment in Lieu of Taxes 2012

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Low-risk auditee?

yes  no



**CITY AND BOROUGH OF SITKA, ALASKA**

Schedule of Findings and Questioned Costs, continued

**Financial Statement Findings, continued**

**Finding 12-01      General Ledger Reconciliation - Significant Deficiency, continued**

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

Views of Responsible Officials: See Corrective action plan.

**III. Federal Award Findings and Questioned Costs**

There are no Federal award findings or questioned costs noted.

**IV. State Award Findings and Questioned Costs**

There are no State award findings or questioned costs noted.

**CITY AND BOROUGH OF SITKA, ALASKA**

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2012

There were no prior year audit findings.

**CITY AND BOROUGH OF SITKA, ALASKA**

Corrective Action Plan

Year Ended June 30, 2012

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

**Finding 12-01      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.

Status: This plan is currently being implemented.