



## City and Borough of Sitka, Alaska

Federal and State Single Audit Reports  
Year Ended June 30, 2014

**City and Borough of Sitka, Alaska**

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Federal and State Single Audit Reports  
Year Ended June 30, 2014

# City and Borough of Sitka, Alaska

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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, 2014, 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 20, 2015. 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 2014-001 and 2014-002 to be material weaknesses.

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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 2014-003 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  
March 20, 2015





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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 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, 2014. 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, 2014. 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.

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### ***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, 2014.

### **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, 2014, 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 20, 2015, 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  
March 20, 2015





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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, 2014. 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, 2014. 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, 2014.

#### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with State of Alaska Audit Guide and Compliance Supplement for State Single Audits and which is described in the accompanying schedule of findings and questioned costs as item 2014-004. Our opinion on each major state program is not modified with respect to this matter.

City and Borough of Sitka's response to the noncompliance finding identified in our audit is 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 compliance and, accordingly, we express no opinion on the response.

#### **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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-004 to be a material weakness.

*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.

City and Borough of Sitka's response to the internal control over compliance finding identified in our audit is 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 compliance and, accordingly, we express no opinion on the response.

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, 2014, 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 20, 2015 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 20, 2015



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

<i>Year Ended June 30, 2014</i>	Grant Number	Catalog of Federal Domestic Assistance Number	Total Grant Award	Expend- itures
<b>Department of Agriculture</b>				
National Forest Receipts	FY14NFR	10.665	\$ 800,509	\$ 800,509
Passed through the State of Alaska Department of Natural Resources - Community Forestry Program	DNR Cooperative	10.664	26,000	<u>2,000</u>
Total Department of Agriculture				<u>802,509</u>
<b>Department of Commerce</b>				
Passed through the State of Alaska Department of Commerce, Community, and Economic Development				
Sitka Fish Waste Disposal Solution for Sitka Sport Fishers	13-CSMI-002	11.438	250,000	250,000
Ice Making and Storage Infrastructure	13-CSMI-003	11.438	116,724	<u>437</u>
Total Department of Commerce				<u>250,437</u>
<b>Department of the Homeland Security</b>				
Passed through the State of Alaska Department of Military and Veterans Affairs:				
2013 State Homeland Security Program	11SHSP-GR34078	97.067	242,625	164,119
2011 State Homeland Security Program	11SHSP-GR34076	97.067	116,450	<u>10,559</u>
Total Department of Homeland Security				<u>174,678</u>
<b>Department of the Interior</b>				
Payment in Lieu of Taxes 2013	-	15.226	596,029	596,029
Payment in Lieu of Taxes 2014	-	15.226	655,506	655,506
Passed through the State of Alaska Department of Commerce, Community and Economic Development - Swan Lake Restoration	10-CIAP-014	15.668	771,236	11,636
Passed through the State of Alaska Department of Natural Resources:				
Lincoln Street Historic District	13599	15.904	20,000	15,705
Fenestration: North Pacific Hall, Sheldon Jackson Campus	12563	15.904	22,365	<u>15,518</u>
Total Department of the Interior				<u>1,294,394</u>
<b>Department of Justice</b>				
COPS Hiring Recovery Program	2011-UMWX-002	16.710	326,835	95,753
Bullet Proof Vest Program	2011-BUBX-11058466	16.607	2,100	2,072
Passed through the State of Alaska Department of Public Safety - SEACAD/SEANET - Task Force	JAG-14-206	16.738	201,822	<u>190,616</u>
Total Department of Justice				<u>288,441</u>
<b>Department of Transportation</b>				
Sitka Seaplane Base, Sitka, AK Planning Study	3-02-0267-001-2010	20.106	300,000	3,446
Cross Trail Multimodal Pathway Phase	DTFH70-13-E-00017	20.205	1,670,003	<u>6,452</u>
Total Department of Transportation				<u>9,898</u>

**City and Borough of Sitka, Alaska**

**Schedule of Expenditures of Federal Awards, continued**

<i>Year Ended June 30, 2014</i>	Grant Number	Catalog of Federal Domestic Assistance Number	Total Grant Award	Expend- itures
<b>Environmental Protection Agency</b>				
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	5,729
Baranof Street Sewer Main Replacement - Loan	783091	66.458	652,000	382,136
Baranof Street Sewer Main Replacement - Subsidy	783091	66.458	88,000	<u>63,813</u>
Total CFDA 66.458				<u>451,678</u>
Alaska Drinking Water Loans:				
Harbor Mt Treated Water Tank - Subsidy	783341	66.468	617,000	6,035
UV Disinfection Facility - Loan	783431	66.468	1,500,000	76,434
UV Disinfection Facility - Subsidy	783431	66.468	2,500,000	64,526
Baranof Street Water Main Replacement- Loan	783501	66.468	441,140	158,914
Baranof Street Water Main Replacement- Subsidy	783501	66.468	243,860	<u>121,139</u>
Total CFDA 66.468				<u>427,048</u>
Total Environmental Protection Agency				<u>878,726</u>
Total Expenditures of Federal Awards			\$	<u>3,699,083</u>

*See accompanying notes to the schedule.*



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

<i>Year Ended June 30, 2014</i>	Grant Number	Total Grant Award	Expend- itures
<b>Department of Military &amp; Veteran Affairs</b>			
2014 Local Emergency Planning Committee Grant	14LEPC-GR35602	\$ 14,343	<u>14,343</u>
<b>Department of Commerce, Community and Economic Development</b>			
Takatz	13-DC-420	770,000	232,864
Commercial Passenger Vessel Facilities and Visitor Improvement	10-DC-025	2,000,000	252,188
Moller Park Baseball Field Improvement	10-RR-009	450,000	11,245
* Crescent Harbor Sidewalk Widening	11-DC-637	1,000,000	549,606
* Commercial Passenger Vessel Facilities and Visitor Improvement	11-DC-644	4,500,000	666,689
* Community Hospital Roof Replacement	13-DC-467	1,200,000	1,086,508
Eagle Way and Old Harbor Mountain Road Upgrade and Ownership Transfer	13-DC-481	1,500,000	185
Baranof Warm Spring Dock Improvements and Ownership Transfer	13-DC-497	1,900,000	16,288
Sitka High School Vocational Education Facility	13-DC-534	2,900,000	215,653
Failed Collector Streets Rehabilitation	13-DC-533	2,900,000	114,954
* Commercial Passenger Vessel and Visitor Facility Improvement	13-DC-581	4,500,000	583,293
* Kattleson Memorial Library Expansion	13-DC-596	5,700,000	784,745
* Supplemental & Emergency Diesel Generation	13-DC-607	7,125,000	5,240,485
Sawmill Cove Industrial Park Dock	13-GO-015	7,500,000	57,983
Shared Fisheries Business Tax	2014	30,548	30,548
* State Revenue Sharing	2014	913,886	<u>913,886</u>
Total Department of Commerce, Community and Economic Development			<u>10,757,120</u>
<b>Alaska Energy Authority</b>			
* Blue Lake Hydroelectric Project	7910013	28,450,000	13,719,937
Takatz Hydroelectric Feasibility	2195418	2,000,000	<u>261,821</u>
Total Alaska Energy Authority			<u>13,981,758</u>
<b>Department of Corrections</b>			
Local Community Jail Program	2014	47,600	<u>47,600</u>
<b>Department of Environmental Conservation</b>			
Cove Lift Station Replacement	78315	150,000	1,915
* UV Disinfection Facility	78317	5,561,000	401,494
* Baranof Street Sewer and Water Main Replacement	78319	997,500	<u>531,903</u>
Total Department of Environmental Conservation			<u>935,312</u>

**City and Borough of Sitka, Alaska**

**Schedule of State Financial Assistance, continued**

<i>Year Ended June 30, 2014</i>	Grant Number	Total Grant Award	Expend- itures
<b>Department of Education and Early Development</b>			
Public Library Assistance	PLA1375169	\$ 6,600	6,600
* Pacific High School Renovation	GR-10-006	1,736,513	411,197
* Debt Reimbursement Program		2,523,860	2,523,860
Early Literacy Minigrant	ELM-14-751-9	2,000	<u>2,000</u>
Total Department of Education and Early Development			<u>2,943,657</u>
<b>Department of Administration</b>			
* State PERS Relief	2014	1,563,256	1,563,256
Auto Tax	2014	91,511	<u>91,511</u>
Total Department of Administration			<u>1,654,767</u>
<b>Department of Transportation and Public Facilities</b>			
* ANB Harbor Float Replacement	13-HG-006	4,250,000	3,208,162
SCIP Waterfront Development Plan	69600	460,000	<u>123,355</u>
Total Department of Transportation and Public Facilities			<u>3,331,517</u>
<b>Department of Revenue</b>			
Liquor Tax	2014	21,875	21,875
* Fisheries Raw Fish Tax	2014	1,183,956	1,127,772
Fishery Resource Landing Tax	2014	7,108	7,108
* Commercial Passenger Vessel Tax	2014	302,985	<u>302,985</u>
Total Department of Revenue			<u>1,459,740</u>
<b>Total State Financial Assistance</b>		<b>\$</b>	<b><u>35,125,814</u></b>

*See accompanying notes to the schedule.*

# 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, 2014*

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### 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, 2014. The information in these schedules is presented in accordance with the requirements of OMB-Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, 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, 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.

Expenditures reported on the Schedules are reported on the modified accrual basis of accounting.

**City and Borough of Sitka, Alaska**  
**Schedule of Findings and Questioned Costs**  
*Year Ended June 30, 2014*

**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?  yes  no  
 Significant deficiency(ies) identified?  yes  (none reported)

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

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: Unmodified

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:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Agency</i>
66.468	Capitalization Grants for Drinking Water State Revolving Funds	Environmental Protection Agency
10.665	National Forest Receipts	Department of Agriculture
15.226	Payments in Lieu of Taxes	Department of the Interior

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

Auditee qualified as low-risk auditee?  yes  no

**State 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: Unmodified

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



# City and Borough of Sitka, Alaska

## Schedule of Findings and Questioned Costs, continued

<b>Section II - Financial Statement Findings Required to be Reported in Accordance with Government Auditing Standards</b>
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**Finding 2014-001 General Ledger Reconciliation & External Financial Reporting - Material Weakness**

<i>Criteria</i>	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.
<i>Condition</i>	There were material adjustments made to the general ledger and the financial statements during the course of the audit, which resulted in a material changes to revenue and expense. Specifically, adjustments were made to Accounts Payable, Construction in Progress, Grant Revenue, Accounts Receivable, Equity, and Debt Issue Costs.
<i>Context</i>	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 and at year end. Although we noted most accounts underwent monthly or quarterly reconciliation, we noted errors in the year end balances, particularly in accounts that are accounted for on a budgetary basis for day-to-day purposes, but must be converted to GAAP basis for external financial reporting.
<i>Effect</i>	Individual accounts were misstated, leading to revenue and expense being misstated. There were 14 audit journal entries and 8 management entries to correct the general ledger.
<i>Cause</i>	Internal controls were not established to ensure that all general ledger accounts were properly reconciled and adjusted for yearend GAAP based reporting.
<i>Recommendation</i>	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. Yearend financial statements should also be reviewed for accuracy.
<i>Management Response</i>	Refer to the corrective action plan.



# City and Borough of Sitka, Alaska

## Schedule of Findings and Questioned Costs, continued

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**Finding 2014-002 Grant Reconciliation - Preparation of the State and Federal Grant Expenditure Schedules - Material Weakness**

*Criteria* During the year the City and borough recorded transactions affecting multiple State and Federal grants. The accounting for these transactions was not always properly recorded or reported on the required schedules.

*Condition* There were numerous errors and discrepancies involving the records maintained for state and federal grants.

*Context* Several adjustments were required to properly reconcile grant receivables, expenditures, and cash receipts to the corrected State and Federal Schedules.

*Effect* Several adjustments were required to properly reconcile grant receivables, expenditures, and cash receipts to the corrected State and Federal Schedules.

*Cause* The allocation of funding to various projects at City and Borough of Sitka makes the grant accounting and reporting extremely complex. Also, the City and Borough experienced turnover in the key position responsible for grant accounting. Both learning curve and level of complexity contributed to errors in the accounting and record keeping.

*Recommendation* We recommend that the City and Borough attempt to simplify their grant activities. For example, the city has one grant that funds multiple projects and each of those projects are funded by multiple grants or loans. Where possible, try to limit the number of projects applied to any individual grant. This would streamline the grant accounting to a single location within the general ledger. In addition, the City and Borough will need to allow for training and additional learning curve (due to additional turnover).

*Management Response* Refer to the corrective action plan.

**Finding 2014-003 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.

# City and Borough of Sitka, Alaska

## Schedule of Findings and Questioned Costs, continued

<i>Effect</i>	By not capitalizing interest expense, the City overstated expense in the current year and would subsequently reduce depreciation expense in future periods.
<i>Cause</i>	The City and Borough did not 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.
<i>Recommendation</i>	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.
<i>Management Response</i>	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 .510(a) of the Circular) that are required to be reported.

### Section IV - State Award Findings and Questioned Costs

<b>Finding 2014-004</b>	<b>Other Tests and Provisions - Procurement - Internal control over Compliance - Material Weakness - Noncompliance</b>
<i>Agency Program Award No.</i>	Department of Commerce, Community and Economic Development Supplemental & Emergency Diesel Generation 11-DC-607
<i>Criteria</i>	Grant terms and conditions require that the grantee establish and maintain a financial management system and accounting system which conforms to generally accepted accounting principles. To this end, Borough municipal code 3.16.020 requires acquisitions or contracts that exceed \$50,000 to obtain assembly approval. Property or services ranging from \$25,000 to \$50,000 may be established upon seeking at least three competitive bids. In addition Alaska Statute 36.30 requires that procurements for \$100,000 or more for construction (\$50,000 or more for supplies or services) should be competitively bid. AS 36.30.320 further clarifies that "procurements may not be artificially divided or fragmented so as to constitute a purchase" under the small procurement rules, which waives the competitive bid process.
<i>Condition</i>	The Borough conducted business with three separate vendors who each were paid in excess of \$100,000 for services performed in 2014. For these three vendors the Borough failed to follow procurement policy and did not conduct a formal bidding process or draft a contract for services. In two instances the Borough did not receive assembly approval.
<i>Questioned Costs</i>	\$522,034 - this is the total amount paid to the three vendors

## City and Borough of Sitka, Alaska

### Schedule of Findings and Questioned Costs, continued

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<i>Context</i>	For two of the vendors it appears that personnel issued multiple purchase orders below the \$25,000 limit in violation of the policy. With respect to one of the vendors, Assembly approval was obtained; however, no contract was executed. There was no apparent bid process or contract for any of the three vendors.
<i>Effect</i>	The Borough appears to be in violation of AS 36.30.320 as well as Borough Code Section 3.16.020.
<i>Cause</i>	The Borough's internal controls over procurement were not followed.
<i>Recommendation</i>	Management should design, implement, and maintain internal control over procurement requirements in order to enable the Borough's compliance with the State and Municipal code.
<i>Management Response</i>	Refer to the corrective action plan.



**City and Borough of Sitka, Alaska**  
**Summary Schedule of Prior Audit Findings**  
*Year Ended June 30, 2014*

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<b>Financial Statement Findings Required to be Reported in Accordance with <i>Government Auditing Standards</i></b>
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<b>Finding</b>	<b>2013-001 General Ledger Reconciliation - Material Weakness</b>
<i>Condition</i>	Significant adjustments were required to the general ledger accounts.
<i>Status</i>	This item is modified as finding 2014-001.
<b>Finding</b>	<b>2013-002 Recording of Long-Term Debt - Material Weakness</b>
<i>Condition</i>	Debt proceeds were improperly recorded.
<i>Status</i>	This item has been resolved.
<b>Finding</b>	<b>2013-003 Interest Capitalization - Significant Deficiency</b>
<i>Condition</i>	Interest incurred on construction project debt was not capitalized.
<i>Status</i>	This item is repeated as finding 2014-003.

# City and Borough of Sitka, Alaska

## Corrective Action Plan Year Ended June 30, 2014

*Contact* Michael Middleton  
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City and Borough of Sitka, Alaska  
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### Financial Statement Findings

**Finding 2014-001 General Ledger Reconciliation & External Financial Reporting - Material Weakness**

*Management Response* In fiscal year 2014, several factors complicated the fiscal year end process.

- A new enterprise resource planning (ERP) software was implemented. This resulted in significant changes from the familiar processes of staff. This meant a slowed response on year end processes
- Staff turnover brought new staff into a function with no working history of the processes as specific to Sitka.

Combining these two elements increases the risk of error. To fix this situation, we are pursuing additional training for staff on the new system. Reconciliations will be verified and reviewed before the year end processes are complete.

*Corrective Action* Staff are being trained on the new ERP and on the external reporting requirements.

*Expected Completion* This is expected to be completed by the 2015 fiscal year end.

**Finding 2014-002 Grant Reconciliation - Preparation of the State and Federal Grant Expenditure Schedules - Material Weakness**

*Management Response* In Fiscal year 2014, several factors complicated the fiscal year end process. These are these are the same conditions listed in response to Finding 2014-001.

- A new enterprise resource planning (ERP) software was implemented. This resulted in significant changes from the familiar processes of staff. This meant a slowed response on year end processes
- Staff turnover brought new staff into a function with no working history of the processes as specific to Sitka.

To be more specific, the Grant Accountant transferred out to another department just one month after the new ERP went live. The time to fill the position took almost two months. To further complicate matters, the position turned over again in fiscal year 2015, so we are faced with a similar difficulty. The new Grant Accountant is focused on simplifying the processes and has already made large strides to do so. Management is in full agreement with the recommendation to simplify the grant process to the extent possible. We will be pursuing this goal. The simplification will be an ongoing process and will not be accomplished in one year due to ongoing projects.

*Corrective Action* The new Grant Accountant will focus on simplifying the complexities of the grant tracking. Management has made this a priority.



# City and Borough of Sitka, Alaska

## Corrective Action Plan Year Ended June 30, 2014

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*Expected Completion* Progress will be made on reducing the complexity by fiscal 2015 year end, however this will be an ongoing process. Management expects to consider this complete by fiscal 2016 year end. It will always remain a subject of continuous improvement.

### **Finding 2014-003 Interest Capitalization - Significant Deficiency**

*Management Response* Yes, the interest should have been capitalized. This was identified by staff, but the entry was not done for whatever reason. Management has set the standard to review the interest paid on debt to determine if the interest should be capitalized. Due to the new ERP implementation, this was missed.

*Corrective Action* At the fiscal yearend, all interest paid will be identified as associated with either projects closed in a prior fiscal year or projects open in the fiscal year just ended. All interest allocable to open projects will be capitalized according the GASB 62.

*Expected Completion* This will be in place for fiscal 2015 year end.

### State of Alaska Findings

### **Finding 2014-004 Other Tests and Provisions - Procurement - Internal Control over compliance - Material Weakness, Noncompliance**

*Management Response* Contracts should have been used in instances found. Normally, large projects are overseen by the Public Works department and the rules are followed very closely. However, all three instances occurred in the Electric Department on the same project. The problem is a result of experience, awareness and training on the part of the Department staff. Due to employee turnover in the Finance Department, Management did not catch this issue. The issue will be brought to the core Management Group to raise awareness of the issue and compliance with the procurement procedures.

*Corrective Action* All project managers will be reminded of the rules to be followed. Finance will have the appropriate staff ensure contracts are in place appropriately. Copies will be kept with the project file. Purchase orders will be reviewed with additional attention paid to Purchase Orders just under the \$25,000 rule and consecutive Purchase Orders to the same vendor on the same project will be examined and a contract required if appropriate. This will be discussed at the core Management Group to raise awareness city-wide on compliance with procurement procedures.

*Expected Completion* This will be in place for fiscal 2015 year end.