



## City and Borough of Sitka, Alaska

Federal and State Single Audit Reports  
Year Ended June 30, 2015



# **City and Borough of Sitka, Alaska**

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Federal and State Single Audit Reports  
Year Ended June 30, 2015



# City and Borough of Sitka, Alaska

## Contents

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	Page
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 <i>Government Auditing Standards</i>	1-2
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	3-5
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 <i>State of Alaska Audit Guide and Compliance Supplement for State Single Audits</i>	6-8
Schedule of Expenditures of Federal Awards	9-10
Schedule of State Financial Assistance	11-12
Notes to the Schedule of Expenditures of Federal Awards and the Schedule of State Financial Assistance	13
Schedule of Findings and Questioned Costs	14-18
Summary Schedule of Prior Audit Findings	19
Corrective Action Plan	20-21





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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, 2015, 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 21, 2016. 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 items 2015-001 and 2015-002 that we consider to be 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 21, 2016





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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 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, 2015. 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, 2015. 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, 2015.

### **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. 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, 2015, 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 21, 2016, 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 21, 2016





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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, 2015. 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, 2015. 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.

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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, 2015.

### **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, 2015, 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 21, 2016 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 21, 2016



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

<i>Year Ended June 30, 2015</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	\$ 752,083	<u>\$ 752,083</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	13-SHSP-GR34078	97.067	242,625	25,995
2014 State Homeland Security Program	14SHSP-GR34094	97.067	102,213	<u>3,297</u>
Total Department of Homeland Security				<u>29,292</u>
<b>Department of the Interior</b>				
Payment in Lieu of Taxes 2015	FY15	15.226	604,742	604,742
Passed through the State of Alaska Department of Commerce, Community and Economic Development - Swan Lake Restoration				
	10-CIAP-014	15.668	771,236	670,858
Passed through the State of Alaska Department of Natural Resources:				
Lincoln Street Historic District	13599	15.904	20,000	2,092
North Pacific Hall Façade Restoration	14608	15.904	19,995	1,227
Japonski Island Marine Ways	14607	15.904	11,316	11,316
Japonski Island Boathouse Doors and West Wall	15015	15.904	15,000	<u>185</u>
Total CFDA 15.904				<u>14,820</u>
Total Department of the Interior				<u>1,290,420</u>
<b>Department of Justice</b>				
COPS Hiring Program	2011-UMWX-002	16.710	326,835	98,575
COPS Hiring Program	2014-UMWX0023	16.710	125,000	<u>15,918</u>
Total CFDA 16.710				<u>114,493</u>
Bullet Proof Vest Program	2013	16.607	1,438	1,063
Bullet Proof Vest Program	2014	16.607	1,908	<u>1,908</u>
Total CFDA 16.607				<u>2,971</u>
Passed through the State of Alaska Department of Public Safety				
Edward Byrne Memorial Justice Assistance Grant	JAG 15-206	16.738	202,000	<u>178,052</u>
Total Department of Justice				<u>295,516</u>
<b>Department of Transportation</b>				
Sitka Seaplane Base, Sitka, AK Planning Study	3-02-0267-001-2010	20.106	300,000	2,359
Cross Trail Multimodal Pathway Phase	DTFH70-13-E-00017	20.205	1,670,003	681,369
SCIP - Paving FTA	AK-03-0077-00	20.500	1,941,747	<u>3,091</u>
Total Department of Transportation				<u>686,819</u>

**City and Borough of Sitka, Alaska**

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

<i>Year Ended June 30, 2015</i>	Grant Number	Catalog of Federal Domestic Assistance Number	Total Grant Award	Expend- itures
<b>Department of Commerce</b>				
Passed through State of Alaska Department of Education and Early Development				
Broadband Technology - OWL	OWL 14-751-01	11.557	\$ 5,642	\$ 5,642
<b>Environmental Protection Agency</b>				
Passed through State of Alaska Department of Environmental Conservation:				
Capitalization Grants for Clean Water State Revolving Funds:				
Monastery and Baranoff Sewer - SMC to DeGroff - Loan	783411	66.458	533,000	1,001
Hollywood Way and New Archangel Street Sewer - Subsidy	783511	66.458	500,000	44,303
Baranof Street Sewer Main Replacement - Loan	783091	66.458	652,000	5,617
Baranof Street Sewer Main Replacement - Subsidy	783091	66.458	88,000	938
Total CFDA 66.458				<u>51,859</u>
Capitalization Grants for Drinking Water State Revolving Funds:				
Monastery and Baranoff Water - SMC to DeGroff - Loan	783301	66.468	497,000	25,525
Jeff Davis Water Main Replacement - Loan	783371	66.468	812,000	6,016
Hollywood Way Water Main Replacement - Loan	783521	66.468	112,500	37,969
Hollywood Way Water Main Replacement - Subsidy	783521	66.468	137,500	33,751
UV Disinfection Facility - Loan	783431	66.468	2,500,000	1,546,565
UV Disinfection Facility - Subsidy	783431	66.468	1,500,000	1,306,690
Baranof Street Water Main Replacement- Loan	783501	66.468	441,140	1,584
Baranof Street Water Main Replacement- Subsidy	783501	66.468	243,860	4,918
Total CFDA 66.468				<u>2,963,018</u>
Total Environmental Protection Agency				<u>3,014,877</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 6,074,649</u>

*See accompanying notes to the schedule.*



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

<i>Year Ended June 30, 2015</i>	Grant Number	Total Grant Award	Expend- itures
<b>Department of Military &amp; Veteran Affairs</b>			
2015 Local Emergency Planning Committee Grant	15LEPC-GR35602	\$ 13,913	<u>\$ 13,913</u>
<b>Department of Commerce, Community and Economic Development</b>			
Takatz Lake Hydroelectric Project Planning and Analysis	13-DC-420	770,000	140,695
* Commercial Passenger Vessel Lightering Facility Improvement	10-DC-025	2,000,000	950,104
Commercial Passenger Vessel Facilities and Visitor Improvement	11-DC-644	4,500,000	700
* Community Hospital Roof Replacement	13-DC-467	1,200,000	34,937
Eagle Way and Old Harbor Mountain Road Upgrade and Ownership Transfer	13-DC-481	1,500,000	83,115
Baranof Warm Spring Dock Improvements and Ownership Transfer	13-DC-497	1,900,000	160,506
* Sitka High School Vocational Education Facility	13-DC-534	2,900,000	2,471,878
* Failed Collector Streets Rehabilitation	13-DC-533	2,900,000	2,413,646
* Kettleson Memorial Library Expansion	13-DC-596	5,700,000	2,220,331
Nelson Logging Road Upgrade and Ownership Transfer	13-DC-517	2,343,000	10,680
* Sawmill Cove Industrial Park Dock	13-GO-015	7,500,000	314,150
Shared Fisheries Business Tax	2015	43,235	43,235
* State Revenue Sharing	2015	911,318	<u>911,318</u>
Total Department of Commerce, Community and Economic Development			<u>9,755,295</u>
<b>Alaska Energy Authority</b>			
* Blue Lake Hydroelectric Expansion Project	7910013	28,450,000	5,751,765
* Blue Lake Hydroelectric Expansion Project	7060917	4,000,000	4,000,000
Takatz Hydroelectric Feasibility	2195418	2,000,000	75,933
Sitka Centennial Hall Air Source Heat Pump	7071011	232,600	<u>4,636</u>
Total Alaska Energy Authority			<u>9,832,334</u>
<b>Department of Environmental Conservation</b>			
* UV Disinfection Facility	78317	5,561,000	2,794,322
* Hollywood Way and New Archangel Street Water and Sewer	78321	552,300	451,705
Jeff Davis Street Water and Sewer Improvements	78322	644,000	19,827
Monastery and Baranof Water and Sewer - SMC to DeGross	78320	763,000	<u>174,289</u>
Total Department of Environmental Conservation			<u>3,440,143</u>

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

<i>Year Ended June 30, 2015</i>	Grant Number	Total Grant Award	Expend- itures
<b>Department of Education and Early Development</b>			
Public Library Assistance	PLA1575167	\$ 6,650	\$ 6,650
Pacific High School Renovation	GR-10-006	1,736,513	86,826
* Debt Reimbursement Program	FY15	2,417,908	<u>2,417,908</u>
Total Department of Education and Early Development			<u>2,511,384</u>
<b>Department of Administration</b>			
* State PERS Relief	2015	5,051,718	5,051,718
Auto Tax	2015	94,554	<u>94,554</u>
Total Department of Administration			<u>5,146,272</u>
<b>Department of Transportation and Public Facilities</b>			
ANB Harbor Float Replacement	13-HG-006	4,250,000	122,108
SCIP Waterfront Development Plan	69600	460,000	<u>3,379</u>
Total Department of Transportation and Public Facilities			<u>125,487</u>
<b>Department of Revenue</b>			
Liquor Tax	2015	30,975	30,975
* Fisheries Raw Fish Tax	2015	1,009,033	1,009,033
Commercial Passenger Vessel Tax	2015	157,340	<u>157,340</u>
Total Department of Revenue			<u>1,197,348</u>
<b>Total State Financial Assistance</b>			<u>\$ 32,022,176</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, 2015

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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, 2015. 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.

### 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 OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, 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. Subrecipients

The City and Borough provided subrecipient grants during FY15 as follows:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Amount Provided to Subrecipient</i>
10.665	National Forest Receipts	\$376,041

### 3. PERS On-Behalf

The City and Borough has recorded \$5,051,718 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 FY2015.

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.

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, 2015*

**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 federal programs:  
 Material weakness(es) identified?  yes  no  
 Significant deficiency(ies) identified?  yes  (none reported)

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

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

Identification of major federal 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
20.205	Highway Planning - Cross Trail Multi-modal Pathway	Department of Transportation
15.668	Coastal Impact Assistance - Swan Lake Restoration	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 state programs:  
 Material weakness(es) identified?  yes  no  
 Significant deficiency(ies) identified?  yes  (none reported)

Type of auditor's report issued on compliance for major state 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

### Section II - Financial Statement Findings Required to be Reported in Accordance with Government Auditing Standards

#### Finding 2015-001 External Financial Reporting - Material Weakness

<i>Criteria</i>	Section A1.08 of Government Auditing Standards states that "management is responsible for...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>	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.
<i>Context</i>	We noted that most accounts are being appropriately reconciled monthly or quarterly throughout the course of the year. However, we noted errors in certain year end balances, particularly related to 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 at year end, leading to revenue and expense being misstated. Adjustments were required to correct the general ledger.
<i>Cause</i>	Internal controls were not in place to ensure that all general ledger accounts were properly reconciled and adjusted for yearend GAAP based reporting. Turnover in the grant accounting position was a contributing factor to the grant related adjustments.
<i>Recommendation</i>	City and Borough staff should closely review the activity in the General Ledger. In particular, year-end balances should be reviewed for completeness and accuracy accounting for one-time and yearend adjustments needed to correctly report in accordance with GAAP requirements.
<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 2015-002 Grant Reconciliations - 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* We noted several errors in the general ledger and in the state and federal award schedules.

*Context* Overall, it appears that the City and Borough is doing a good job of capturing costs related to projects. However, there is a high degree of complexity with regard to revenue and receivables recognition, and proper application of costs to the state and federal schedules. For example, projects funded through the ADEC revolving loan programs may or may not result in revenue recognition and may or may not result in expenditure recognition for single audit reporting, depending on the specific disbursement.

*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.

## City and Borough of Sitka, Alaska

### Schedule of Findings and Questioned Costs, continued

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#### 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

There were no findings and questioned costs for State of Alaska awards that are required to be reported.

**City and Borough of Sitka, Alaska**  
**Summary Schedule of Prior Audit Findings**  
*Year Ended June 30, 2015*

**Financial Statement Findings Required to be Reported in Accordance with *Government Auditing Standards***

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

*Condition*                    Significant adjustments were required to the general ledger accounts.

*Status*                        This item is repeated as finding 2015-001, with certain modifications. There was some improvement noted; however, not all of the external reporting issues were fully resolved.

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

*Condition*                    Errors were noted in the state and federal grant schedules.

*Status*                        This item is repeated as finding 2015-002, with minor modifications

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

*Condition*                    Interest incurred on construction project debt was not capitalized.

*Status*                        This item is resolved in 2015.

**State Award Findings and Questioned Costs**

**Finding**                    2014-004 Other Tests and Provision - Procurement - Internal control over Compliance - Material Weakness - Noncompliance

*Condition*                    The Borough conducted business with vendors paid in excess of \$100,000 for services that did not comply with Borough policy. One contract did not follow the bidding process and two contracts did not receive assembly approval.

*Status*                        Additional review procedures were established in 2015 and the procurement policy and procedure manual is in process of being reviewed and revised to ensure future compliance. This finding is considered resolved.



# City and Borough of Sitka, Alaska

## Corrective Action Plan Year Ended June 30, 2015

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

### Financial Statement Findings

**Finding 2015-001 External Financial Reporting - Material Weakness**

*Management Response* Staff notes that this material weakness involves the recording of unusual and uncommon adjusting journal entries necessary for external financial reporting. Day-to-day accounting processes are consistently recording with accuracy and timeliness. Some unusual entries, made just once a year, or one time only, in order to prepare accounting records for financial reporting, were recorded incorrectly.

An example of such unusual entries which were not properly recorded involved the refunding of bonded debt. The occasions to make such entries are very infrequent, often not occurring for significant periods of time.

Staff's perspective is that improvement has been achieved during the last fiscal year in the preparation of accounting information for external financial reporting, as evidenced by a reduction in audit adjustments.

*Corrective Action* Staff will address this weakness by implementing three corrective actions:

- (1) Greater involvement by the Chief Financial and Administrative Officer in discussion as to the accounting treatment for unusual events and their effect for external reporting, and, subsequent review of accounting treatments after recording
- (2) Consideration as to the engagement of professional consulting accountants for review of the final adjusted trial balance in preparation for external financial reporting, in order to ensure completeness and sufficiency of accounting treatments
- (3) Discussion by the professional accounting staff of entries that required adjustment, their causes, and the appropriate accounting treatments, in order to increase the level of overall staff education

*Expected Completion* Corrective actions will be implemented in conjunction with the FY2016 external audit.

# City and Borough of Sitka, Alaska

## Corrective Action Plan Year Ended June 30, 2015

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**Finding 2015-002 Grant Reconciliation - Preparation of the State and Federal Grant Expenditure Schedules - Material Weakness**

*Management Response*

The City and Borough again experienced staff turnover in grant accounting in Fiscal Year 2015. The grant accountant is one of the most demanding positions within the accounting staff and highly experienced individuals are very difficult to recruit. Furthermore, the fiscal limitations of the Municipality only allow it to be able to afford one staff member for grant accounting and reporting, not providing great depth.

The incumbent in the position departed in early August 2015 to return to the Eastern US, for personal reasons unrelated to work. The position was not refilled until late September. The new staff member, while highly skilled and possessing advanced education had no previous experience in grant accounting and reporting. Thus, during the critical period of time in which the Schedules of Federal and State Grant Expenditures are prepared for audit, the grant account and position was vacant. Given the challenge of beginning work in a challenging position, without prior experience, during the intense period of audit preparation, the City and Borough feels its grant accountant did an excellent job.

It is critical to note, however, that due to limited personnel resources, grant accounting and reporting capabilities will remain vulnerable during times of staff turnover. Due to the complex technical nature of grant accountant duties, deep technical expertise is difficult to hire and takes some length of time to develop through training. Such expertise is lost during personnel transitions, which are quite often due to personal reasons unrelated to the workplace.

*Corrective Action*

Management feels that the current incumbent in the position has made great strides in mastering the technical demands of the position, simplifying processes, and implementing workflow management systems which will improve consistency and accuracy in grant reporting. Management will continue to assist the current grant accountant in mastering the intricacies of grant accounting and reporting through training and support, whenever possible.

*Expected Completion*

Management expects continuous progress to be made but points out that improvement is highly dependent on its ability to retain skilled employees so that consistency and continuation of effective workflow management process can be obtained.

**Federal Award Findings**

There were no federal findings reported in 2015. No corrective action is required.

**State of Alaska Findings**

There were no State of Alaska findings reported in 2015. No corrective action is required.