

**CITY OF YPSILANTI,
MICHIGAN**

SINGLE AUDIT

For the Year Ended June 30, 2009

**CITY OF YPSILANTI, MICHIGAN
SINGLE AUDIT**

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**INDEPENDENT AUDITORS' 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**

December 8, 2009

Honorable Mayor and Members
of the City Council
City of Ypsilanti, Michigan

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ypsilanti, Michigan* (the "City") as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of finding and questioned costs as item 2009-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we did not consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Ypsilanti's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Ypsilanti's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the City, in a separate letter dated December 8, 2009.

This report is intended solely for the information and use of City Council, management, others within the organization, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

December 8, 2009

Honorable Mayor and Members
of the City Council
City of Ypsilanti, Michigan

Compliance

We have audited the compliance of the *City of Ypsilanti, Michigan* (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 major federal programs occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ypsilanti, Michigan as of and for the year ended June 30, 2009, and have issued our report thereon dated December 8, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of City Council, management, others within the organization, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**CITY OF YPSILANTI, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Grant/ Agreement/ Account Number	Expenditures
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Program - Bulletproof Vest Partnership Program	16.607	OMB# 1121-0235	\$ 219
Passed-through the Michigan Department of Community Health: LAWNET Conspiracy Continuation Project:			
2008/2009	16.738	2008-DJ-BX-0013	16,870
2007/2008	16.738	7234-1-08-B	2,923
Total U.S. Department of Justice			<u>20,012</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Program - Assistance to Firefighters Grant	97.044	EMW-2008-FO-06794	<u>67,587</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed-through the Michigan Economic Development Corporation - Community Development Block Grants - Value of loans outstanding - prior year expenditures	14.228	MSC 201017-EDIG	2,750,350
Passed-through Washtenaw County - Community Development Block Grants- 2007 Curb Cuts Project	14.218	B-07-UC-26-0006	<u>51,851</u>
Total U.S. Department of Housing and Urban Development			<u>2,802,201</u>
<u>U.S. DEPARTMENT OF INTERIOR NATIONAL PARKS SERVICE</u>			
Passed through the Michigan Department of History Arts and Libraries - State Historic Preservation Fund - Ypsilanti Freighthouse Moisture Control and Rehabilitation Project	15.904	CG08-398	<u>35,000</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Passed through Michigan Department of Environmental Quality - Clean Water Capitalization Grants for Drinking Water:			
State Revolving Funds	66.468	7248-01	317,732
State Revolving Funds	66.468	7249-01	<u>68,599</u>
Total U.S. Environmental Protection Agency			<u>386,331</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,311,131</u>

See accompanying notes to this schedule.

CITY OF YPSILANTI, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the City of Ypsilanti, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Ypsilanti reporting entity is defined in Note 1 of the City's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 of the City's basic financial statements.

3. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City of Ypsilanti, Michigan provided \$386,331 of Capitalization Grants for Drinking Water Revolving Funds to the Ypsilanti Community Utilities Authority.

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CITY OF YPSILANTI, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? X yes _____ none reported

Noncompliance material to financial statements
noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

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

CITY OF YPSILANTI, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants
66.468	Capitalization Grants for Drinking Water Revolving Funds

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

Auditee qualified as low-risk auditee? _____ yes X no

SECTION II – FINANCIAL STATEMENT FINDINGS

Significant Deficiency

Finding 2009-1 Preparation of Financial Statements in Accordance with GAAP (Repeated)

Criteria. The City is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting)

Condition. As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Cause. Management has made the decision that it is in its best interest to outsource the preparation of its annual financial statements to the auditors rather than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

CITY OF YPSILANTI, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2009

Effect. As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials. The City has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

Finding 2008-3 Suspension and Debarment (CFDA#97.044)

Issue was adequately resolved.

Finding 2008-4 Federally Purchased Asset Inventory

Issue was adequately resolved.

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