

CITY AND BOROUGH OF JUNEAU, ALASKA

State Financial Assistance Reports

Year ended June 30, 2007

CITY AND BOROUGH OF JUNEAU, ALASKA

State Financial Assistance Reports

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# ELGEE REHFELD MERTZ, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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## 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*

The Members of the Assembly  
City and Borough of Juneau, Alaska

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City and Borough of Juneau, Alaska, (City and Borough) as of and for the year ended June 30, 2007, which collectively comprise the City and Borough's basic financial statements and have issued our report thereon dated December 19, 2007. 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 and Borough's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City and Borough's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City and Borough'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 over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 a combination of control deficiencies, that adversely affects the City and Borough'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 City and Borough's financial statements that is more than inconsequential will not be prevented or detected by the City and Borough's internal control. We considered the deficiency described in the accompanying schedule of findings and questioned cost to be a significant deficiency in internal control over financial reporting. See finding 07-01.

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 City and Borough's internal control.

Our consideration of the 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 the internal controls that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City and Borough'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questions costs as item 07-02.

We also noted other matters that we reported to management of the City and Borough in a separate letter dated December 19, 2007.

This report is intended solely for the information and use of the Assembly, management, others within the organization, and the State of Alaska and is not intended to be and should not be used by anyone other than these specified parties.



December 19, 2007

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## REPORT ON COMPLIANCE WITH REQUIRMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE *STATE OF ALASKA AUDIT GUIDE AND COMPLIANCE SUPPLEMENT FOR STATE SINGLE AUDITS*

The Members of the Assembly  
The City and Borough of Juneau, Alaska

### Compliance

We have audited the compliance of the City and Borough of Juneau, Alaska (City and Borough) with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that are applicable to each of its major state programs for the year ended June 30, 2007. The City and Borough's major state programs are identified in the accompanying Schedule of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of the City and Borough's management. Our responsibility is to express an opinion on the City and Borough'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 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 the City and Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City and Borough's compliance with those requirements.

In our opinion, the City and Borough complied, in all material respects, with the requirements referred to above that are applicable to each of its major state programs for the year ended June 30, 2007.

### Internal Control Over Compliance

The management of the City and Borough is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state programs. In planning and performing our audit, we considered the City and Borough's internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing an 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 and Borough'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 state 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 state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state 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 result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state 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 weakness. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of State Financial Assistance and Schedules of Expenditures - Budget and Actual

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City and Borough as of and for the year ended June 30, 2007, and have issued our report thereon dated December 19, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City and Borough's basic financial statements. The accompanying Schedule of State Financial Assistance (pages 5-6) and Schedules of Expenditures - Budget and Actual (page 13) are presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and are 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 the Assembly, management, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.



December 19, 2007

CITY AND BOROUGH OF JUNEAU  
Schedule of State Financial Assistance  
Year ended June 30, 2007

State grant or/pass-through grant or/program title	Grant Number	Award Amount	Receivable (deferral) at July 1, 2006	Amount Received	Expenditures	Receivable (deferral) at June 30, 2007
Department of Community and Economic Development:						
Direct Program:						
Fisheries Business Tax	-	\$ 18,000	\$ -	\$ 18,798	\$ 18,798	\$ -
Eaglecrest Nordic Ski Trail	03-DC-121	25,000	-	530	1,573	1,043
JD Treatment Plant Incinerator	04-DC-001	415,000	29,766	29,969	235	32
Dimond Park School Complex Swimming Pool Design & Plan	05-DC-056	125,000	1,260	1,604	8,795	8,451
Adair Kennedy Bleachers	* 06-DC-083	100,000	7,017	85,795	90,307	11,529
JSD Technology Upgrades	* 06-DC-084	400,000	344,685	399,686	55,001	-
Expand Terminal Building	07-DC-197	1,000,000	-	1,905	5,805	3,900
Dzantik'I Heeni Covered Playground	07-DC-198	15,000	-	-	983	983
Municipal Capital Project Matching Grant Program						
Essential Bldg Repairs II	03-MG-091	171,000	41,256	77,205	47,532	11,583
Total Department of Community and Economic Development		<u>2,269,000</u>	<u>423,984</u>	<u>615,492</u>	<u>229,029</u>	<u>37,521</u>
Department of Education and Early Development:						
Library Assistance	PLA0674338	18,750	-	18,750	18,750	-
Interlibrary Cooperation Grant - Netlender	ILC-06-743-108	1,200	-	1,200	1,200	-
State Shared Revenue:						
School Debt Retirement FY06	-	3,971,752	142,970	142,970	-	-
School Debt Retirement FY07	* -	6,094,043	-	5,943,656	6,091,043	147,387
Total Department of Education and Early Development		<u>10,085,745</u>	<u>142,970</u>	<u>6,106,576</u>	<u>6,110,993</u>	<u>147,387</u>
Department of Environmental Conservation:						
Hospital Drive Lift Station	44587	275,000	275,000	261,250	-	13,750
Bayview Sewer Expansion & North Douglas Sewer	* 44582	2,533,375	82,693	270,099	736,139	548,733
3rd Street Douglas Water and Sewer Replacement	44585	750,000	5,291	-	-	5,291
North Tee Harbor Waterline Extension	* 44586	490,800	-	-	356,406	356,406
Total Department of Environmental Conservation		<u>4,049,175</u>	<u>362,984</u>	<u>531,349</u>	<u>1,092,545</u>	<u>924,180</u>
Department of Fish and Game:						
Amalga Harbor Ramp Rehabilitation	03-045	600,000	98,952	101,466	2,800	286
Fish Creek & Montana Creek Access Improvements	06-010	4,000	-	-	3,697	3,697
Mendenhall River Erosion Control	05-110	45,000	45,000	45,000	-	-
Total Department of Fish and Game		<u>649,000</u>	<u>143,952</u>	<u>146,466</u>	<u>6,497</u>	<u>3,983</u>

CITY AND BOROUGH OF JUNEAU  
Schedule of State Financial Assistance  
Year ended June 30, 2007

State grant or/pass-through grant or/program title	Grant Number	Award Amount	Receivable (deferral) at July 1, 2006	Amount Received	Expenditures	Receivable (deferral) at June 30, 2007
Department of Health and Social Services:						
Comp. Behavioral Health Treatment (FY06)	602-06-243	639,539	114,761	114,761	-	-
Comp. Behavioral Health Treatment (FY07)	* 602-07-243	621,100	-	590,045	621,100	31,055
Total Department of Health and Social Services		1,260,639	114,761	704,806	621,100	31,055
Department of Military and Veterans Affairs:						
Local Emergency Planning Committee FY06	-	13,500	4,446	4,446	-	-
Local Emergency Planning Committee FY07	-	2,350	-	1,590	2,349	759
State Disaster Public Assistance 2005 Storm Repair	AK17	7,216	-	7,216	7,216	-
State Disaster Public Assistance 2005 Storm Repair	AK18	10,382	-	10,382	10,382	-
State Disaster Public Assistance 2005 Storm Repair	AK19	20,000	-	20,000	20,000	-
State Disaster Public Assistance 2005 Storm Repair	AK20	36,400	-	36,400	36,400	-
Total Department of Military and Veterans Affairs		89,848	4,446	80,034	76,347	759
Department of Revenue:						
State Shared Revenue FY06:						
Aviation Fuel	-	67,266	67,266	67,266	-	-
Liquor Taxes	-	62,100	43,200	43,200	-	-
Raw Fish Tax	-	340,230	340,230	340,230	-	-
PERS	*	1,397,100	-	1,397,093	1,397,093	-
State Shared Revenue FY07:						
Aviation Fuel	*	80,000	-	-	79,914	79,914
Liquor Taxes	-	60,000	-	15,450	49,050	33,600
Raw Fish Tax	*	250,000	-	-	334,326	334,326
Energy & Other	*	573,012	-	1,249,807	1,249,807	-
Total Department of Revenue		2,829,708	450,696	3,113,046	3,110,190	447,840
Department of Transportation and Public Facilities:						
Snow Removal Equipment Building (AIP 25)	67642	21,873	390	1,816	1,794	368
Juneau Airport EIS Phase III (AIP 39)	67462	43,437	4,381	8,584	4,203	-
Construct Taxiway Extension (AIP 42)	68028	32,741	-	4,911	4,911	-
Airport Terminal Study Phase II (AIP 44)	68091	20,000	10	10	-	-
Delta 1 Ramp Expansion (AIP 43)	67754	39,250	11,799	14,797	3,397	399
Juneau Airport EIS Phase III (AIP 46)	68895	19,737	-	8,212	15,034	6,822
Douglas Harbor Breakwater Army Corp of Eng. MOA	67779	800,000	-	400,000	3,960	(396,040)
Total Department of Transportation and Public Facilities		977,038	16,580	438,330	33,299	(388,451)
Total State Financial Assistance		\$ 22,210,153	\$ 1,660,373	\$ 11,736,099	\$ 11,280,000	\$ 1,204,274

\*Major Program



CITY AND BOROUGH OF JUNEAU, ALASKA

Notes to Schedule of State Financial Assistance

Year ended June 30, 2007

General

The accompanying Schedule of State Financial Assistance presents the activity of all State financial assistance programs of the City and Borough of Juneau, Alaska. The City and Borough's reporting entity is defined in Note 1 to the City and Borough's basic financial statements. State financial assistance received directly from State agencies is included in the schedule.

Basis of Accounting

The accompanying Schedule of State Financial Assistance is presented using the modified-accrual basis of accounting, which is described in Note 1 to the City and Borough's basic financial statements.

Relationship to Basic Financial Statements

The following is a reconciliation of State revenues reported in the City and Borough's basic financial statements to State expenditures reported in the Schedule of State Financial Assistance:

State revenues as reported in the basic financial statements:	
Changes in Revenues, Expenditures, and Changes in Fund Balances –	
Governmental Funds	\$ 13,526,971
Changes in Revenues, Expenses, and Changes in Net Assets	
Proprietary Fund	670,040
Internal Service Funds	58,500
	<u>14,255,511</u>
Less:	
Federal grants passed through the State of Alaska	(4,306,740)
Amounts reported as state revenue in the basic financial statements not included in the Schedule of State Financial Assistance	(475,479)
Rounding	(2)
Plus:	
Amounts reported as State revenue included in the Schedule of State Financial Assistance, but not included in the basic financial statements:	
Bartlett Regional Hospital grant revenues reported as operating revenues	621,100
Roaded Service Area revenues reported as other revenue	18,623
Airport, Harbor, Hospital, Water and Sewer capital projects	<u>1,166,987</u>
Total State expenditures as reported in the Schedule of State Financial Assistance	<u>\$ 11,280,000</u>

CITY AND BOROUGH OF JUNEAU, ALASKA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2007

**SUMMARY OF AUDIT RESULTS**

***Financial Statements***

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) over financial reporting?        Yes   X   No
- Significant deficiencies identified that are not considered to be material weakness(es)?   X   Yes        No

Noncompliance material to financial statements noted?        Yes   X   No

***State Awards***

Internal control over financial reporting:

- Material weakness(es) over financial reporting?        Yes   X   No
- Significant deficiencies identified that are not considered to be material weakness(es)? N/A 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 the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*?        Yes   X   No

Major programs:

<u>Grant #</u>	<u>NAME</u>
06-DC-083	Adair Kennedy Bleachers
06-DC-084	JDS Technology Upgrades
N/A	School Debt Retirement FY07
44582	Bayview Sewer Expansion & North Douglas Sewer
44586	North Tee Harbor Waterline Extension
602-07-243	Comp. Behavioral Health Treatment (FY07)
N/A	PERS
N/A	Aviation Fuel
N/A	Raw Fish Tax
N/A	Energy & Other

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**Finding 07-01** Internal Controls over Financial Reporting

Criteria: Generally accepted accounting principles and OMB Circular A-110 (Subpart C, Section 21) require that entities maintain a system of internal controls to provide reasonable assurance regarding the achievement of objectives of accurate and complete financial reporting and adequate support for amounts in the accounting records.

Condition: City and Borough of Juneau has not established adequate internal controls to ensure that amounts recorded as inventory held by its various departments, and related expenditures, are accurate.

Effect: Unit pricing information for inventory as reflected in the City and Borough of Juneau’s accounting system are not accurate.

Cause: Certain operating divisions of the City and Borough of Juneau have not attributed sufficient resources to ensure inventory unit pricing information is current. Also, controls have not been developed to monitor the accuracy of unit pricing information.

Recommendation: The City and Borough of Juneau should allocate additional resources to ensure that inventory pricing is accurate and establish procedures for monitoring inventory unit pricing information in the accounting records.

Management’s Response: Management concurs with the finding. See corrective action plan.

CITY AND BOROUGH OF JUNEAU, ALASKA

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2007

**AGENCY RESPONSE:**

**Financial Statement Finding**

Finding Control Number: **07-01**

Internal Control over Financial Reporting

We **concur** with this finding. The City and Borough of Juneau (CBJ) has procedures in place to verify the accuracy of the various inventory quantities, but these procedures did not extend to verifying the accuracy of the inventory prices used to calculate the inventory value. The City and Borough plans the following actions to address this finding.

The measures taken are as follows:

1. As part of a citywide budget training class held on January 8, 2008, the Finance Director presented this issue to the CBJ departments. In that presentation, he noted the issues, problems and expectation on correcting the inventory valuation finding.
2. The Finance Department accounting staff will meet with departments over the next five months to review, develop and document inventory valuation procedures. The objective will be to provide written policies and procedures to departments to correct inventory valuation deficiencies.
3. As part of this process, we will offer suggestions and recommendations to the departments on what can be done to make the task of pricing inventory at year-end more accurate and efficient. For example, departments could flag and compile a file or log of inventory acquisitions during the year for year-end inventory pricing. This file could then be used to help develop and support the year-end inventory values and to assist the accountant and/or auditors with inventory verification. Other options might include switching from excel spreadsheets to an inventory management software system.
4. During the year-end inventory observations, to address the deficiency of costing inventory, the Finance Department Accountants will select at random inventory items to verify pricing. The number of inventory items selected will be determined based upon the inventory types and quantities. This inventory verification step will include a statistically valid sample size. The individual inventory item price verification will be added to the existing procedures.
5. If the inventory tests performed in step #4 are accurate, we will conclude our check. If the inventory price verification tests identify incorrect values and these values are determined to be potentially more than inconsequential, the accountant will select additional items for verification. After the expanded selection, the Accountant will determine if there is likelihood that the combined inventory price inaccuracies could be more than inconsequential, they will notify the Finance Director and require the department to reprice the entire inventory and provide

verifications for all inventory values. It will take several years to build a base, with backup, to substantiate the values of all items on the inventory count/list. We feel this is a reasonable solution for addressing this internal control finding.

6. As part of the year-end inventory valuation, we will request that the auditors make their inventory test selections early in their fieldwork to allow sufficient time to pull from the files the documentation supporting the inventory valuations.

Proposed Completion Date: June 30, 2008

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CITY AND BOROUGH OF JUNEAU, ALASKA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2007

No prior year audit findings reported.

CITY AND BOROUGH OF JUNEAU, ALASKA  
 SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL  
 Comprehensive Behavioral Health Treatment Programs (602-07-243)  
 Year ended June 30, 2007

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Personal services	\$ 621,100	\$ 621,100	\$ -
	<u>\$ 621,100</u>	<u>\$ 621,100</u>	<u>\$ -</u>