



City of Valdez, Alaska

Federal and State Single Audit Reports
Year Ended December 31, 2016

City of Valdez, Alaska

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Year Ended December 31, 2016

City of Valdez, Alaska

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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 City Council
City of Valdez, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Valdez, Alaska as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City of Valdez's basic financial statements, and have issued our report thereon dated September 14, 2017. Our report includes a reference to other auditors who audited the financial statements of Valdez City Schools, Valdez Museum & Historical Archive Association, Providence Valdez Medical Center, and Providence Valdez Counseling Center as described in our report on City of Valdez's basic 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. The financial statements of Providence Valdez Medical Center, Providence Valdez Counseling Center, and the Valdez Museum & Historical Archive Association were not audited in accordance with *Government Auditing Standard*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Valdez'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 of Valdez's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Valdez'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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been 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 operations 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 a 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2016-001 to be a material weakness.

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 2016-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Valdez'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 of Valdez's Response to Findings

City of Valdez's response to the findings identified in our audit are described in the accompanying corrective action plan. City of Valdez'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
September 14, 2017



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3601 C Street, Suite 600
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Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Honorable Mayor and City Council
City of Valdez, Alaska

Report on Compliance for Each Major Federal Program

We have audited City of Valdez'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 of Valdez's major federal programs for the year ended December 31, 2016. City of Valdez's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

City of Valdez's basic financial statements include the operations of Valdez City Schools, Valdez Museum and Historical Archive Association, Inc., Providence Valdez Medical Center and Providence Valdez Counseling Center. Our audit, described below, did not include the operations of Valdez City Schools, Valdez Museum and Historical Archive Association, Inc., Providence Valdez Medical Center and Providence Valdez Counseling Center because they each were subject to separate audits; however, none met the threshold for an audit in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Valdez'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 of Valdez'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 federal program. However, our audit does not provide a legal determination of City of Valdez's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Valdez 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 December 31, 2016.

Report on Internal Control Over Compliance

Management of City of Valdez 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 of Valdez'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 the Uniform Guidance, 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 of Valdez'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 City of Valdez as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City of Valdez's basic financial statements. We issued our report thereon dated September 14, 2017, which contained unmodified opinions on those financial statements. Our audit included a reference to other auditors. 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 the Uniform Guidance 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
September 14, 2017

City of Valdez, Alaska
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Department of Agriculture				
Passed through State of Alaska Department of Commerce, Community, and Economic Development - Forest Service Schools and Roads Cluster -				
Schools and Roads - Grants to States	10.665	N/A	\$ -	\$ 1,332,631
Department of the Interior				
Passed through State of Alaska Department of Commerce, Community, and Economic Development -				
Payments in Lieu of Taxes	15.226	N/A	-	732,147
Environmental Protection Agency				
Passed through State of Alaska Department of Environmental Conservation				
Clean Water State Revolving Fund Cluster -				
Capitalization Grants for Clean Water State Revolving Funds	66.458	891031	-	17,613
Total Expenditures of Federal Awards			\$ -	\$ 2,082,391

See accompanying notes to the schedule of expenditures of federal awards.

N/A - not available

City of Valdez, Alaska

Notes to Schedule of Expenditures of Federal Awards Year Ended December 31, 2016

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of City of Valdez, Alaska under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of City of Valdez, it is not intended to and does not present the financial position, changes in net position or cash flows of City of Valdez.

All of the City's federal awards were in the form of cash assistance for the year ended December 31, 2016 and had no federally funded insurance programs or loan guarantees during the year ended December 31, 2016.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

City of Valdez has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



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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 City Council
City of Valdez, Alaska

Report on Compliance for Each Major State Program

We have audited City of Valdez'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 of Valdez's major state programs for the year ended December 31, 2016. City of Valdez's major state programs are identified in the accompanying schedule of state financial assistance.

City of Valdez's basic financial statements include the operations of Valdez City Schools which received \$6,125,816 in state awards which is not included in City of Valdez's schedule of state financial assistance during the year ended December 31, 2016. Our audit, described below, did not include the operations of Valdez City Schools because it was subjected to a separate audit in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. City of Valdez's basic financial statements also include the operations of Valdez Museum and Historical Archive Association, Inc., Providence Valdez Medical Center and Providence Valdez Counseling Center. Our audit, described below, did not include the operations of Valdez Museum and Historical Archive Association, Inc., Providence Valdez Medical Center and Providence Valdez Counseling Center because they were subjected to separate audits; however, none met the threshold for an 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 of Valdez'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 audit requirement of 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 of Valdez'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 of Valdez's compliance.

Opinion on Each Major State Program

In our opinion, City of Valdez 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 December 31, 2016.

Report on Internal Control Over Compliance

Management of City of Valdez 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 of Valdez'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 of Valdez'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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Valdez as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City of Valdez's basic financial statements. We issued our report thereon dated September 14, 2017 which contained unmodified opinions on those financial statements. Our audit included a reference to other auditors. 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
September 14, 2017

City of Valdez, Alaska
Schedule of State Financial Assistance
Year Ended December 31, 2016

State Agency and Award Name	Award Number	Total State Expenditures
Department of Commerce, Community and Economic Development		
Improvements to Small Boat Harbor	14-RR-015	\$ 30,407
Senior Center Facility and Grounds Upgrade	14-DC-140	28,339
* Small Boat Harbor Expansion and Upland Development	14-DC-141	570,030
* Valdez Boat Harbor	13-DC-588	156,144
* Community Revenue Sharing	2016	181,620
Shared Fisheries Tax	2016	28,504
Total Department of Commerce, Community and Economic Development		995,044
Department of Military and Veteran Affairs		
2016 Local Emergency Planning Committee Grant	16LEPC - GR35602	6,623
2017 Local Emergency Planning Committee Grant	17LEPC - GR35602	4,656
2014 State Homeland Security Program	14SHSP - GR34094	3,011
Total Department of Military and Veteran Affairs		14,290
Department of Revenue		
* Electric & Telephone Cooperative Tax	2016	200,095
* Fisheries Business Tax	2016	290,247
Liquor Licenses	2016	15,050
Total Department of Revenue		505,392
Department of Administration		
* PERS Relief	2016	433,952
Department of Education and Early Development		
* School Debt Retirement Program	2016	1,555,281
Continuing Education	-	1,500
Public Library Assistance Grant	PLA 17	6,860
Total Department of Education and Early Development		1,563,641
Department of Transportation and Public Facilities		
* Harbor Debt Retirement Program	2016	210,650
Department of Corrections		
FY2014 Capital Projects	-	3,118
Total State Financial Assistance		\$ 3,726,087

* Major programs

See accompanying notes to the schedule of state financial assistance.

City of Valdez, Alaska

Notes to Schedule of State Financial Assistance Year Ended December 31, 2016

1. Basis of Presentation

The accompanying schedule of state financial assistance (the "Schedule") includes the state grant activity of City of Valdez, Alaska under programs of the state government for the year ended December 31, 2016. The information in the Schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of City of Valdez, Alaska, it is not intended to and does not present the financial position, changes in net position or cash flows of City of Valdez, Alaska.

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

2. PERS On-Behalf

The City has recorded \$433,952 in PERS on-behalf payments in the schedule of state financial assistance. This represents the PERS relief payments appropriated and transferred into the plan during calendar year 2016 and related to both pension and OPEB contributions.

In the governmental fund financial statements, on-behalf revenue and expenditures have been recognized in their proportional share of payroll within the calendar year under audit.

However, in the full accrual financial statements (the government-wide 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. For the City of Valdez, the PERS plan measurement period is July 1, 2015 through June 30, 2016, creating a six-month timing difference between the cash contribution and revenue and expense recognition for the pension on-behalf by the City in those statements.

As a result of these perspective and timing differences, amounts reported on the government-wide financial statements do not agree to the amount reported on the schedule of state financial assistance.

City of Valdez, Alaska

Schedule of Findings and Questioned Costs Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: 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 2 CFR 200.516(a)? ☐ yes ☒ no

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster	Agency
10.665	Forest Service Schools and Roads Cluster - Schools and Roads - Grants to States	Department of Agriculture

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

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 distinguish a state major program: \$ 75,000

City of Valdez, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2016

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

Finding 2016-001	Capital Outlay and Prepaid Expense - Internal Control over Financial Reporting - Material Weakness
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<i>Criteria</i>	<i>Government Accounting Standards</i> states management is responsible for ensuring that 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.
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<i>Condition</i>	Capital outlay and prepaid expense balances were misstated due to a prior year adjusting entry that was mistakenly double booked in the current year.
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<i>Context</i>	During the preliminary analytical review, a large credit balance to prepaid expense was noted. Upon further review, it was determined that the City had incorrectly adjusted prepaid expense and capital outlay by \$758,235 in the General Fund. It appears that the City double posted a prior year adjustment.
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<i>Cause</i>	Internal controls related to journal entry review and supporting documentation, and monthly financial statements review were not functioning properly.
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<i>Effect</i>	Overstatement of expense (capital outlay) at the General Fund level, an overstatement of capital assets (construction in progress) at the government-wide level, and an understatement of prepaid expense.
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<i>Recommendation</i>	Journal entry reviewers should carefully review manual journal entries, assessing the entry for reasonableness based on the nature of the entry being booked and looking for adequate supporting documentation.
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<i>View of Responsible Officials and Planned Corrective Actions</i>	Refer to the corrective action plan.
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City of Valdez, Alaska

Schedule of Findings and Questioned Costs, continued Year Ended December 31, 2016

Finding 2016-002 **Accounts Payable - Internal Control over Financial Reporting - Significant Deficiency**

Criteria *Government Accounting Standards* states management is responsible for ensuring that 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.

Condition The accounts payable balance was misstated due to inadequate review of accounts payable cut-off at year-end.

Context During test work, we determined that the City had incorrectly recorded fiscal year 2016 expenditures of \$74,357 in the subsequent fiscal year.

Cause Accounts payable and subsequent cash disbursements were not properly reviewed at year-end.

Effect Understatement of liabilities and expenditures.

Recommendation Accounts payable should be carefully detail reviewed to ensure that all liabilities are recorded in the proper year.

*View of
Responsible
Officials and
Planned
Corrective
Actions*

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 2 CFR 200.516(a)) that are required to be reported.

Section IV - State Award Findings and Questioned Costs

There were no findings and questioned costs for State awards (as defined in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*) that are required to be reported.

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City of Valdez Single Audit Responses (Unaudited)



City of Valdez, Alaska

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2016

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Financial Statement Findings

Finding 2015-001 Reporting - Internal Controls over Compliance - Significant Deficiency

Finding: The City did not submit required progress reports when expenditures were incurred for the Wastewater Treatment Plant Outfall program.

Status: Finding resolved in 2016.

□



September 11, 2017

Memo from: Brian Carlson, Finance Director
To: City Manager, City Council, Finance Staff, BDO Audit Team
Re: **2016 Audit Findings; Corrective Action Plan**

The final 2016 financial audit contains the following findings:

Material Weakness	The City double posted a prior year transaction in 2016 to record the purchase of a firetruck. Result was an overstatement of capital outlay expense, overstatement of construction in progress, and an understatement of prepaid expenses.
Significant Deficiency	Invoices received and paid after year-end for 2016 expenditures were not properly recorded as accounts payable in 2016.

So as to eliminate the possibility of recurrence of these specific findings, the following procedures will be immediately and formally incorporated into finance department policies and procedures:

Review of Quarterly Internal Financial Statements:

The City's accounting records are reconciled and closed each month. Internal quarterly financial statements are prepared following the process for the months of March, June, September, and December. These statements are prepared by the Comptroller and Director, and are submitted to City Council.

Quarterly financial statement review emphasizes budget-to-actual figures, and serves primarily as a budgetary control and an operational summary for both Council and management. The material weakness referenced in the 2016 audit reflects this budgetary and operational emphasis, as it resulted from insufficient review of the balance sheet.

To address this shortcoming, Finance Director and Comptroller will ensure that a detailed review of balance sheets is performed each quarter. This will be implemented via printing and review of detailed ledgers of all balance sheet items, reconciliation of same. Detailed ledgers and summaries will be signed by both parties, and retained according to the City's adopted records retention schedule.

Review of Year-End Payables and Expenditures:

Upon conclusion of the calendar year, finance staff continues to receive invoices for goods and services procured for the concluded year. With each bi-weekly bill-payment cycle, these invoices are isolated from current-year invoices by the accounting staff for additional review and scrutiny by the Comptroller and Finance Director, so as to ensure correct posting. This process continues through the month of February, after which time all prior-year invoices are received, paid, and booked, and the concluded year is closed.

Explanations of this process and its deadlines are disseminated to all departments by the accounting staff each year, beginning in November. The *significant deficiency* noted in the 2016 audit is the result of invoices being submitted to Finance Department after the February deadline, despite notice being given to departments. This coincided with the hiring of a new department director.

To mitigate this shortcoming, the Finance Director will increase the regularity of communications to the City Manager, department directors and administrative staff by issuing memos via email reminding departments of the deadlines pertaining to year-end procurement, and the invoicing requirements for same. These will be issued with each bi-weekly accounts payable processing beginning in November, and extending through February.

In addition, invoices received after the February deadline will be forwarded to the City Manager for review and approval prior to payment, thereby enabling the City Manager to impose additional corrective action upon department directors who fail to meet this deadline.