

CITY OF RACINE
Racine, Wisconsin

REPORT ON FEDERAL AND STATE AWARDS

For the Year Ended December 31, 2011

CITY OF RACINE

TABLE OF CONTENTS For the Year Ended December 31, 2011

	<u>Page</u>
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 <i>Government Auditing Standards</i>	1 - 2
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i> and the <i>State Single Audit Guidelines</i> and the Schedules of Expenditures of Federal and State Awards	3 - 5
Schedule of Expenditures of Federal Awards	6 - 9
Schedule of Expenditures of State Awards	10
Notes to Schedules of Expenditures of Federal and State Awards	11
Schedule of Findings and Questioned Costs	12 - 16

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*

To the Mayor and Common Council
City of Racine
Racine, Wisconsin

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 of Racine, Wisconsin as of and for the year ended December 31, 2011, which collectively comprise the City of Racine's basic financial statements and have issued our report thereon dated July 23, 2012. Our report was modified due to the implementation of Governmental Accounting Standards Board Statement No. 54. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the City of Racine Water and Wastewater Utilities and the Downtown Racine Business Improvement District #1, as described in our report on the City of Racine's financial statements. The financial statements of the City of Racine Water and Wastewater Utilities and Downtown Racine Business Improvement District #1 were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City of Racine is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Racine'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 of Racine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Racine's internal control over financial reporting.

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.

To the Mayor and Common Council
City of Racine

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Racine'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 is required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Racine in a separate letter dated July 23, 2012.

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



Milwaukee, Wisconsin
July 23, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*
AND THE *STATE SINGLE AUDIT GUIDELINES* AND THE SCHEDULES OF
EXPENDITURES OF FEDERAL AND STATE AWARDS

To the Mayor and Common Council
City of Racine
Racine, Wisconsin

Compliance

We have audited the City of Racine, Wisconsin's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of the City of Racine's major federal and major state programs for the year ended December 31, 2011. The City of Racine's major federal and major state 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 and major state programs is the responsibility of the City of Racine's management. Our responsibility is to express an opinion on the City of Racine'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; *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the *State Single Audit Guidelines*. Those standards, *OMB Circular A-133* and the *State Single Audit Guidelines* 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 or major state program occurred. An audit includes examining, on a test basis, evidence about the City of Racine'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 of Racine's compliance with those requirements.

In our opinion, the City of Racine complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and major state programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A-133* or the *State Single Audit Guidelines* and which are described in the accompanying schedule of findings and questioned costs as items 2011-2 and 2011-3.

To the Mayor and Common Council
City of Racine

Internal Control Over Compliance

Management of the City of Racine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the City of Racine's internal control over compliance with the requirements that could have a direct and material effect on a major federal or major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Racine'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 or 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 federal or state program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, 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. However we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-1. 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 or 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.

To the Mayor and Common Council
City of Racine

Schedules of Expenditures of Federal and State Awards

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 the City of Racine, Wisconsin as of and for the year ended December 31, 2011, and have issued our report thereon dated July 23, 2012 which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City of Racine's financial statements. Our report was modified due to the implementation of Governmental Accounting Standards Board Statement No. 54. Our report was modified to include a reference to other auditors who audited the financial statements of the City of Racine Water and Wastewater Utilities and the Downtown Racine Business Improvement District #1, as described in our report on the City of Racine financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the *State Single Audit Guidelines* and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 and state awards is fairly stated in all material respects in relation to the financial statements as a whole.

The City of Racine's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Racine's responses and, accordingly, we express no opinion on the responses.

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



Milwaukee, Wisconsin
September 17, 2012, except for our report on the Schedules of Expenditures of
Federal and State Awards, for which the date is July 23, 2012

**Schedule of Expenditures of
Federal Awards Follows**

CITY OF RACINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

Federal CFDA Number	Federal Grantor/Pass Through Grantor/Program Title	Revenues					Expenditures	
		(Accrued) Deferred Revenue 12/31/2010	Grantor Receipts	Accrued (Deferred) Revenue 12/31/2011	Local Revenue	Total Revenues	Grantor	Local
								Total
	U.S. DEPARTMENT OF JUSTICE							
	Passed through State of Wisconsin Department of Administration Office of Justice Assistance							
	Project Safe Neighborhood							
16.744		\$ -	25,000	-	-	25,000	-	25,000
16.710*	Public Safety Partnership and Community Policing Grants - ARRA	(129,695)	333,344	74,034	-	277,683	-	277,683
16.710*	Public Safety Partnership and Community Policing Grants - ARRA	-	-	98,598	-	98,598	-	98,598
16.738	2009 Edward Byrne Memorial Justice Assistance Grant	2,212	-	(1,996)	-	216	-	216
16.738	2010 Edward Byrne Memorial Justice Assistance Grant	(44,510)	89,020	-	-	44,510	-	44,510
16.804	2009 Edward Byrne Memorial Justice Assistance Grant-ARRA	(109,268)	160,902	50,857	-	102,491	-	102,491
	Total JAG Program Cluster	(151,566)	249,922	48,861	-	147,217	-	147,217
16.812	Second Chance Act Prisoner Reentry Initiative	-	-	5,603	-	5,603	-	5,603
	U.S. DEPARTMENT OF TRANSPORTATION							
	Urban Mass Transportation Administration							
	Federal Transit - Formula Grant							
20.507*		-	2,384,486	-	-	2,384,486	-	2,384,486
20.507*	Federal Transit - Formula Grant-ARRA	(191,626)	2,345,302	69,001	-	2,222,677	-	2,222,677
20.500*	Federal Transit - Capital Investment Grant-2009 Award Year	-	-	17,000	4,250	21,250	4,250	21,250
	Passed through State of Wisconsin Department of Transportation							
	Federal Transit - Capital Investment Grant							
20.500*	2004 Award Year	(27,124)	34,696	9,108	4,170	20,850	4,170	20,850
	2005 Award Year	-	21,707	2,812	6,130	30,649	6,130	30,649
	2008 Award Year	-	58,308	(58,308)	-	-	-	-
	Total Federal Transit Cluster	(218,750)	4,844,499	39,613	14,550	4,679,912	14,550	4,679,912
20.205	Congestion Mitigation & Air Quality	(19,381)	85,428	44,208	27,564	137,819	27,564	137,819
20.205	Congestion Mitigation & Air Quality	(52,565)	52,565	-	-	-	-	-
20.205	Congestion Mitigation & Air Quality	(20,307)	20,307	23,094	-	23,094	-	23,094
20.205	Congestion Mitigation & Air Quality	-	-	38,950	9,738	48,688	9,738	48,688
20.205	Congestion Mitigation & Air Quality	-	-	26,732	6,683	33,415	6,683	33,415
20.232	Driver's License Program Improvement Grant	(3,395)	3,395	15,810	-	15,810	-	15,810

CITY OF RACINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

Federal CFDA Number	Federal Grantor/Pass Through Grantor/Program Title	Revenues			Expenditures			
		(Accrued) Deferred Revenue 12/31/2010	Grantor Receipts	Accrued (Deferred) Revenue 12/31/2011	Local Revenue	Grantor	Local	Total
	U.S. DEPARTMENT OF TRANSPORTATION (CONTINUED)							
	Passed through State of Wisconsin							
	Department of Transportation							
	Highway Safety Cluster							
20.600	Surface Transportation Program (STP)-Hazard Elimination	\$ (144,000)	-	144,000	-	-	-	-
20.600	Seat Belt Enforcement Grant	-	-	3,224	-	3,224	-	3,224
20.600	Pedestrian Safety	-	6,000	-	-	6,000	-	6,000
20.600	Alcohol Enforcement	(6,175)	70,000	7,287	-	71,112	-	71,112
	Total Highway Safety Cluster	(150,175)	76,000	154,511	-	80,336	-	80,336
	U.S. ENVIRONMENTAL PROTECTION AGENCY							
	Brownfields Cleanup Revolving Loan Fund							
66.818	Passed through State of Wisconsin	-	-	1,050	-	1,050	-	1,050
	Department of Natural Resources							
66.472	Beach Survey Grant	-	6,818	-	-	6,818	-	6,818
	Passed through University of Wisconsin-Oshkosh							
66.469	Great Lakes Restoration Initiative	(32,722)	92,436	13,254	-	72,968	-	72,968
	Passed through State of Wisconsin							
	Department of Health Services							
66.032	Consolidated Radon Program	2,027	2,500	(84)	-	4,443	-	4,443
	U.S. DEPARTMENT OF ENERGY							
	Energy Efficiency and Conservation Block Grant - ARRA							
81.128		(50,692)	140,615	8,168	5,271	103,362	5,271	103,362
	U.S. DEPARTMENT OF EDUCATION							
	Fund for Improvement of Education							
84.215		(36,513)	143,426	18,968	1,185	127,066	1,185	127,066
	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES							
	IDA-Assets for Independence Program							
93.602	IDA-Assets for Independence Program	86,254	-	(68,275)	49,929	67,908	49,929	67,908
93.602	ARRA-Strengthening Communities Fund	-	28,750	(28,750)	8,500	8,500	8,500	8,500
93.711	Passed through State of Wisconsin	(58,123)	183,983	-	-	125,860	-	125,860
	Department of Health Services							
93.069	Bio Terror-CDC Focus	(7,165)	80,372	1,249	-	74,456	-	74,456
93.069	Cities Readiness Initiative	-	32,707	2,933	-	35,640	-	35,640
93.197	CDC Lead	(1,079)	35,935	-	-	34,856	-	34,856

CITY OF RACINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Revenues				Expenditures		
		(Accrued) Deferred Revenue 12/31/2010	Grantor Receipts	Accrued (Deferred) Revenue 12/31/2011	Local Revenue	Grantor	Local	Total
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONTINUED)								
Passed through State of Wisconsin								
Department of Health Services (cont)								
Immunization Cluster								
Immunization Grant	93.268	\$ 14,082	36,328	(3,066)	-	47,344	-	47,344
ARRA-Immunization Grant	93.712	(5,757)	19,271	(1,677)	-	11,837	-	11,837
Total Immunization Cluster		8,325	55,599	(4,743)	-	59,181	-	59,181
Maternal and Child Health Grant	93.778	1,914	4,130	(1,601)	-	4,443	-	4,443
Partner Referral (HIV) Services	93.940	(8,700)	11,786	6,320	-	9,406	-	9,406
Preventive Health & Health Services	93.991	2,965	9,661	-	-	12,626	-	12,626
Maternal and Child Health Grant	93.994	25,612	55,279	(21,435)	-	59,456	-	59,456
U.S. DEPARTMENT OF HOMELAND SECURITY								
Passed through State of Wisconsin Department of Military Affairs								
Disaster Grants - Public Assistance	97.036	-	121,822	-	1,000,402	1,122,224	1,000,402	1,122,224
Assistance to Firefighters Grant Program	97.044	(52,622)	-	143,920	-	91,298	-	91,298
Assistance to Firefighters Grant Program	97.044	(360,000)	360,000	-	-	-	-	-
Passed through the City of Milwaukee								
Port Security Grant Program	97.056	(95,242)	-	95,742	-	500	-	500
Port Security Grant Program	97.056	-	-	13,819	-	13,819	-	13,819
Passed through State of Wisconsin Office of Justice								
Homeland Security Grant Program	97.067	-	35,210	-	-	35,210	-	35,210
Homeland Security Grant Program	97.067	-	50,131	-	-	50,131	-	50,131
Homeland Security Grant Program	97.067	-	-	44,207	-	44,207	-	44,207
TOTAL FEDERAL AWARDS		\$ (2,820,792)	\$ 11,837,517	\$ 1,661,472	\$ 1,611,940	\$ 12,290,137	\$ 1,611,940	\$ 12,290,137

* Represents a major federal program.

See accompanying notes to Schedules of Expenditures of Federal and State Awards.

**Schedule of Expenditures of
State Awards Follows**

CITY OF RACINE

SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended December 31, 2011

State Agency/Program Title	State ID Number	Revenues					Expenditures		
		(Accrued) Deferred Revenue 12/31/2010	Grantor Receipts	Accrued (Deferred) Revenue 12/31/2011	Local Revenue	Total Revenues	Grantor	Local	Total
WISCONSIN DEPARTMENT OF AGRICULTURE, TRADE, AND CONSUMER PROTECTION Prescription Drug Program	115.04	\$ -	-	7,500	978	8,478	7,500	978	8,478
WISCONSIN DEPARTMENT OF NATURAL RESOURCES Invasive Species Grant	AIRR-087-10	(1,035)	1,035	571	190	761	571	190	761
WISCONSIN DEPARTMENT OF TRANSPORTATION Transit Operating Aids	395.104*	(56,602)	-	56,602	-	-	-	-	-
2005 Award Year		(62,609)	-	62,609	-	-	-	-	-
2007 Award Year		(61,938)	-	61,938	-	-	-	-	-
2008 Award Year		(257,537)	193,245	64,292	-	-	-	-	-
2009 Award Year		(149,698)	-	149,698	-	-	-	-	-
2010 Award Year		(601,155)	403,749	197,406	-	-	-	-	-
2011 Award Year		-	2,487,554	105,373	-	2,592,927	2,592,927	-	2,592,927
WISCONSIN DEPARTMENT OF HEALTH SERVICES Infant Mortality	435.110	30,201	104,029	-	-	134,230	134,230	-	134,230
Consolidated Contract-WWW/P CDC	435.157	32,494	81,342	(24,856)	-	88,980	88,980	-	88,980
Consolidated Contract-Childhood Lead	435.157	14,606	27,334	(8,312)	-	33,628	33,628	-	33,628
Maternal and Child Health Grant	435.159	1,914	4,130	(1,601)	-	4,443	4,443	-	4,443
Passed through Kenosha County									
Tobacco Prevention and Control	435.157	18,987	-	(6,416)	-	12,571	12,571	-	12,571
WISCONSIN DEPARTMENT OF ADMINISTRATION Youth Gang Diversion Program Grant	505.639	-	16,410	27,703	-	44,113	44,113	-	44,113
2010 Award Year		(50,880)	91,000	-	-	40,120	40,120	-	40,120
2011 Award Year		-	134,927	-	52,726	187,653	134,927	52,726	187,653
Uniform Beat Patrol Officers Grant	505.603	-	-	-	-	-	-	-	-
TOTAL STATE AWARDS		\$ (1,143,252)	\$ 3,544,755	\$ 692,507	\$ 53,894	\$ 3,147,904	\$ 3,094,010	\$ 53,894	\$ 3,147,904

* Represents a major state program.
See accompanying notes to Schedules of Expenditures of Federal and State Awards

CITY OF RACINE

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS For the Year Ended December 31, 2011

NOTE 1 – REPORTING ENTITY

The report on Federal and State Awards includes all of the funds of the City of Racine. The reporting entity for the City is based upon criteria established by the Governmental Accounting Standards Board.

State programs reported include only those programs required to be included in accordance with the *State Single Audit Guidelines*.

NOTE 2 – BASIS OF PRESENTATION

The accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations and the State Single Audit Guidelines*.

NOTE 3 – OVERSIGHT AND COGNIZANT AGENCIES

The City's federal oversight agency for audit is the U.S. Department of Housing and Urban Development. The City's state cognizant agency is the Wisconsin Department of Revenue.

NOTE 4 – PAYMENTS MADE TO SUBRECIPIENTS

Of the federal expenditures presented in the schedules of expenditures of federal and state awards, the City provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>to Subrecipients</u>
Project Safe Neighborhood	16.744	\$ 25,000
Homeless Prevention and Rapid Re-Housing Program (HPRP) - ARRA	14.257	255,401
Community Development Block Grant Program-ARRA	14.253	2,006
HOME Investment Partnership Program	14.239	166,846
Emergency Solutions Grants Program	14.231	63,416
Community Development Block Grant Program	14.218	618,550
		<u>\$ 1,131,219</u>

CITY OF RACINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011

Section I: Summary of Auditors' Results

Financial Statements

Type of auditor's report issued	Unqualified	
Internal control over financial reporting		
Material weakness(es) identified?	_____ yes	<u> X </u> no
Significant deficiency(s) identified?	_____ yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes	<u> X </u> no

Federal or State Awards

Internal control over major programs		
Material weakness(es) identified?	_____ yes	<u> X </u> no
Significant deficiency(s) identified?	<u> X </u> yes	_____ none reported

Type of auditor's report issued on compliance for major programs:	Unqualified	
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ yes	<u> X </u> no
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Dollar threshold used to distinguish between Type A and Type B programs	
Federal programs	<u> \$ 320,346 </u>
State programs	<u> \$ 100,000 </u>

Auditee qualified as low-risk auditee?		
Federal programs	<u> X </u> yes	_____ no
State programs	<u> X </u> yes	_____ no

Identification of major federal programs

CFDA NUMBER(S)

14.218/14.253
16.710

20.500 & 20.507

Name of Federal Program or Cluster

Community Development Block Grant Cluster - ARRA
Public Safety Partnership and Community Policing Grants - ARRA
Federal Transit Cluster - ARRA

Identification of major state programs

STATE ID NUMBER(S)

395.104

Name of State Program

Transit Operating Aids

CITY OF RACINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2011

SECTION II: FINANCIAL STATEMENT FINDINGS

There were no findings required to be reported in accordance with Auditing Standards Generally Accepted in the United States of America.

SECTION III: FEDERAL AND STATE FINDINGS AND QUESTIONED COSTS

**FINDING 2011-1: 14.218 COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**14.253 COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS – ARRA
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**14.218: NEIGHBORHOOD STABILIZATION PROGRAM
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, PASSED THROUGH STATE OF
WISCONSIN DEPARTMENT OF ADMINISTRATION**

**20.500 FEDERAL TRANSIT CAPITAL INVESTMENT GRANT
U.S. DEPARTMENT OF TRANSPORTATION, PASSED THROUGH STATE OF WISCONSIN
DEPARTMENT OF TRANSPORTATION.**

**20.507 FEDERAL TRANSIT – FORMULA GRANT
U.S. DEPARTMENT OF TRANSPORTATION**

Criteria: OMB A-133 requires that the City review vendors used in programs receiving federal dollars to ensure that they have not been suspended or debarred.

Condition: During testing of these programs, it was noted that the City was not checking vendors used under these programs against the federal listing of suspended or debarred vendors.

Questioned Costs: None

Context: The City was not aware of this requirement and therefore had not been checking the federal website. The City did check a state website to see if they had been suspended or debarred.

Effect: The City could contract with a vendor that has been suspended or debarred.

Recommendation: We recommend the City update their procedures to include checking vendors against the Federal ELPS website to ensure that they have not been suspended or debarred.

Corrective Action Plan: The City has expanded the procurement procedures relating to federally funded vendors to include an annual review of federally funded vendors. Federally funded vendors have been assigned a specific code in the City's procurement system. Based on the list provided by the procurement system, each vendor's suspended or debarred status will be checked against the Federal ELPS website on an annual basis. This process and the associated results will be internally documented each time it is performed.

CITY OF RACINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2011

SECTION III: FEDERAL AND STATE FINDINGS AND QUESTIONED COSTS (continued)

**FINDING 2011-2: 14.218 COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**14.253 COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS – ARRA
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**14.218: NEIGHBORHOOD STABILIZATION PROGRAM
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, PASSED THROUGH STATE OF
WISCONSIN DEPARTMENT OF ADMINISTRATION**

Criteria: OMB A-133 requires that the costs incurred and paid for under the various programs noted above be for allowable activities as noted in the grant agreement.

Condition: : It was brought to our attention during testing of these programs, that there was a vendor that was paid who had not performed the work they were required to do under their agreement with the City.

Questioned Costs: \$76,150 paid to contractor, the full contract amount. Only 70% -75% of work actually completed.

Context: City staff failed to adequately monitor and inspect the work performed by the contractor. Inspection documents were signed off on by City staff noting that the required work was adequately performed, when in fact, it had not been. Based on further investigation the vendor was discovered to have defrauded other clients. The City has filed a criminal complaint against the vendor and the District Attorney has filed formal criminal theft charges. The City has requested that the judgment against the vendor include restitution for the City.

Effect: The city paid for a service that was never provided.

Recommendation: We recommend the City evaluate their current procedures and policies to determine if there is proper oversight and review of the inspection process that is being performed by City employees.

Corrective Action Plan: The City established pre-qualifications for housing improvement contractors, including background and credentials check. Now only prequalified contractors are eligible to bid on city contracts. City has revised thoroughly the process for payment to housing improvement contractors: descriptions of work are more specific, progress payments are more restricted in number and amount, and more staff participate in review of requests for payment – no longer is one person able to authorize payment.

CITY OF RACINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended December 31, 2011

SECTION III: FEDERAL AND STATE FINDINGS AND QUESTIONED COSTS (continued)

**FINDING 2011-3: 14.218 COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**14.253 COMMUNITY DEVELOPMENT BLOCK GRANT/ENTITLEMENT GRANTS – ARRA
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**14.218: NEIGHBORHOOD STABILIZATION PROGRAM
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, PASSED THROUGH STATE OF
WISCONSIN DEPARTMENT OF ADMINISTRATION**

Criteria: OMB A-133 requires that the City monitor subrecipients and ascertain that the subrecipients used Federal awards for authorized purposes.

Condition: It was brought to our attention during testing of these programs, that there was a subrecipient that had not provided adequate documentation supporting the use of the funding they had received from the City.

Questioned Costs: \$54,222

Context: The City has a process/control in place to evaluate the appropriateness of expenditures being incurred by and reimbursed to subrecipients. It was during this process/control that the City began to question the legitimacy of the subrecipients costs due to the fact that the subrecipient was not able to or willing to provide acceptable support for the reimbursements they were receiving.

Effect: The city could have paid for unauthorized/unallowed expenditures.

Recommendation: We recommend the City continue to attempt to obtain appropriate support for the expenditures in question. If they are not able to obtain appropriate support, legal or disciplinary actions may be warranted.

Corrective Action Plan: City has continued to seek adequate documentation from the subrecipient; recently the City formally requested repayment of the questioned amount. City has sought legal counsel regarding next steps. More broadly, City is further emphasizing the need for adequate accounting and financial controls to potential subrecipients and explicitly considering the financial and administrative capacity of potential subrecipients before awarding funding.

CITY OF RACINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011

Section IV: Other Issues

1. Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? _____ yes X no _____ N/A

2. Does the audit report show audit issues (i.e., material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:

Department of Health Services	_____	yes	<u> X </u>	no	_____	N/A
Department of Transportation	_____	yes	<u> X </u>	no	_____	N/A
Department of Natural Resources	_____	yes	<u> X </u>	no	_____	N/A
Department of Administration	_____	yes	<u> X </u>	no	_____	N/A
Department of Agriculture	_____	yes	<u> X </u>	no	_____	N/A

3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? _____ X yes _____ no _____ N/A

4. Name and signature of partner Wendi M. Unger
Wendi M. Unger, CPA, Partner

5. Date of report September 17, 2012