

CITY OF JONESBORO, ARKANSAS

FEDERAL GRANTS

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

December 31, 2009

CITY OF JONESBORO, ARKANSAS

FEDERAL GRANTS

December 31, 2009

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FREEMAN & COMPANY, INC.

CERTIFIED PUBLIC ACCOUNTANTS

3712 E. Highland Drive, Jonesboro, Arkansas 72401 Phone: 870-932-4514

INDEPENDENT AUDITOR'S REPORT

City Council
City of Jonesboro, Arkansas
P. O. Box 1845
Jonesboro, AR 72401

We have audited the accompanying financial statements of the federal grant funds of the City of Jonesboro, Arkansas, as of and for the year ended December 31, 2009, as listed in the table of contents. These financial statements are the responsibility of the City of Jonesboro, Arkansas's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the federal grant funds of the City of Jonesboro, Arkansas, and do not purport to, and do not, present fairly the financial position of the City of Jonesboro, Arkansas, as of December 31, 2009, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the federal grant funds of the City of Jonesboro, Arkansas, as of December 31, 2009, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2010 on our consideration of the City of Jonesboro, Arkansas, federal grant funds' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements, taken as a whole.

FREEMAN & COMPANY, INC.

A handwritten signature in cursive script that reads "Freeman & Company, Inc". The signature is written in dark ink and is positioned below the printed name of the company.

Jonesboro, Arkansas
September 22, 2010

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

December 31, 2009

	<u>Governmental Fund Types</u>	<u>Account Group General Fixed Assets</u>	<u>Memorandum Total Only</u>
ASSETS			
Accounts receivable - other governments (Note 3)	\$ 149,027		\$ 149,027
Due from general fund	599,388		599,388
Property, plant and equipment (Note 4)	<u> </u>	\$ <u>1,022,962</u>	<u>1,022,962</u>
Total Assets	\$ <u>748,415</u>	\$ <u>1,022,962</u>	\$ <u>1,771,377</u>
 LIABILITIES AND FUND BALANCES			
Accounts Payable-other governments (Note 5)	\$ 329,015		\$ 329,015
Due to general fund	149,027		149,027
Deferred revenue	<u>270,373</u>		<u>270,373</u>
Total Liabilities	<u>748,415</u>		<u>748,415</u>
 FUND BALANCES			
Net investment in property, plant and equipment		\$ <u>1,022,962</u>	<u>1,022,962</u>
Total Liabilities and Fund Balances	\$ <u>748,415</u>	\$ <u>1,022,962</u>	\$ <u>1,771,377</u>

The accompanying notes are an integral part of the financial statements.

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended December 31, 2009

	<u>Governmental</u> <u>Fund Types</u>	<u>Special Revenue</u>
REVENUE		
Grant revenues	\$ <u>3,228,421</u>	
Total Revenue	<u>3,228,421</u>	
EXPENDITURES		
Grant program expenditures	<u>3,228,421</u>	
Total Expenditures	<u>3,228,421</u>	
EXCESS REVENUE OVER EXPENDITURES	<u>0</u>	
FUND BALANCE, BEGINNING OF YEAR	<u>0</u>	
FUND BALANCE, END OF YEAR	\$ <u>0</u>	

The accompanying notes are an integral part of the financial statements.

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Nature of Operations -The entities on which these financial statements report are federal grant funds of the City of Jonesboro, Arkansas. The grants are the U. S. Department of Housing and Urban Renewal, Community Development Block Grant; the U. S. Department of Justice, Local Law Enforcement Block Grant, Bulletproof Vest Partnership Program, Office of Community Oriented Policing Services (COPS), Edward Byrne Justice Assistance Grant, Juvenile Accountability Block Grants, Internet Crimes Against Children; the U.S. Department of Transportation, Federal Transit Administration-Federal Transit Formula Grant, Federal Transit - Metropolitan Planning Grant, Selective Traffic Enforcement Project (STEP), Transportation and Drainage Planning Project; and the Department of Homeland Security, Cooperating Technical Partners Grant and Disaster Grant - Public Assistance.

Under the U.S. Department of Housing and Urban Renewal Community Development Block Grant the City was provided funds for the installation of sewer and storm drainage improvements and other improvements in several areas of the community.

The Local Law Enforcement Block Grant was authorized by Public Law 105-119 for the purpose of providing units of local governments with funds to underwrite projects to reduce crime and improve public safety. The Bulletproof Vest Partnership Program funding is provided to purchase bulletproof vests for law enforcement officers. The U. S. Department of Justice COPS funding is to advance the practice of community policing as an effective strategy in communities' efforts to improve public safety. The Justice Assistance Grant provides funding for additional personnel, equipment, supplies, contractual support, training, technical assistance, and information systems for criminal justice. The Juvenile Accountability Incentive Block Grant provides funding for assistance in community policing associations and in the reduction of alcoholic beverage and narcotic use and possession by juveniles. The Internet Crimes Against Children Grant provides funding for services with the Internet Crimes Against Children Task Force.

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

Federal Transit Formula Grants provide funding for support of public transportation services in urbanized areas (cities with a population over 50,000). Funds may be used for capital projects to finance the planning, acquisition, construction, cost-effective lease, improvement, and maintenance of equipment and facilities for use in transit. These funds were used for the Jonesboro Economical Transit System (JETS) Program.

The Metropolitan Planning Grant provides funding for activities which may include preparation of transportation plans including transportation improvement programs and management systems; studies related to transportation management, operations, capital requirements, and economic feasibility; evaluation of previously funded capital projects; and other related activities in preparation for the construction, acquisition, or improved operation of transportation systems, facilities, and equipment.

The Selective Traffic Enforcement Program provides funding for overtime personnel involved in a national traffic safety campaign to increase seat belt use to 75% and to decrease alcohol related fatalities 43% nationwide.

The Federal-Aid Highway Program provides funding for surveying, engineering, right-of-way acquisition, and relocation assistance for capital improvement projects classified as new construction, reconstruction, improvements for functional, geometric, or safety reasons, and 4R projects (restoration, rehabilitation, resurfacing, and reconstruction); planning; research, development, and technology transfer; intelligent transportation systems projects; roadside beautification; wetland and natural habitat mitigation; traffic management and control improvements; improvements necessary to accommodate other transportation modes; development and establishment of transportation management systems; billboard removal; construction of bicycle facilities and pedestrian facilities; fringe and corridor parking; car pool and van pool projects; and transportation enhancements, such as scenic and historic highway improvements. These funds were used for the Transportation and Drainage Planning Project.

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

The Cooperating Technical Partners Grant objective is to indemnify individuals from losses through the availability of flood insurance, to reduce future flood damages through community floodplain management regulations, and to reduce costs for disaster assistance and flood control.

The Disaster Grant – Public Assistance assists State and local governments in recovering from devastating effects of disasters by providing assistance for debris removal, emergency protective measures and the repair, restoration, reconstruction or replacement of public facilities or infrastructure damaged or destroyed.

Financial reporting - The financial reporting policies of the entities conform to generally accepted accounting principles.

Financial reporting entities - The entities are federal grant funds of the City of Jonesboro, a primary government. As required by generally accepted accounting principles, these financial statements present the financial position and results of operations of the federal grant funds included herewith. This report does not include all funds, account groups, and programs, which are controlled by the entity's governing body. Other activities, funds, account groups, and programs are included in a government wide audit conducted by the Arkansas Department of Legislative Audit.

Fund Accounting - The accounts of the entities are organized on the basis of funds or account groups, each of which are considered to be a separate accounting unit. The operations of each fund are reported as a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the funds are grouped, in the financial statements in this report, into one generic fund type (governmental) and the following broad fund categories:

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (CONTINUED)

GOVERNMENTAL FUND TYPES

Special Revenues Fund - The special revenues fund is used to account for grant funds expended by the City of Jonesboro, Arkansas.

Memorandum Totals Only - The total column on the combined financial statements are provided to aggregate the statement amounts by fund type and account group. The “memorandum only” total is not comparable to a consolidation and does not present consolidated financial information.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - BASIS OF ACCOUNTING

All governmental fund types are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. All major revenues are susceptible to accrual. Expenditures are generally recognized when the related fund liability is incurred.

NOTE 3 - ACCOUNTS RECEIVABLE-OTHER GOVERNMENTS

At December 31, 2009, accounts receivable-other governments consisted of the following:

U.S. Department of Housing and Urban Renewal—Arkansas	
State Office Community Planning and Development	\$ 273
U.S. Department of Transportation—Arkansas State	
Highway and Transportation Department	79,482
U.S. Department of Justice	<u>69,272</u>
	\$ <u>149,027</u>

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2009

NOTE 4 - FIXED ASSETS

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group. No depreciation expense has been provided. All property, plant and equipment are valued at historical costs. The General Fixed Assets Account Group is not a fund. It is concerned only with the measurement of financial position and is not involved with measurement of results of operations.

A schedule of changes in fixed assets is as follows:

	Balance January 1, <u>2009</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2009</u>
Autos	\$ 316,604			\$ 316,604
Office furniture and equipment	660,573	\$ 13,665		674,238
Fuel depot	19,589			19,589
Modular sub-station	<u>12,531</u>	<u> </u>	<u> </u>	<u>12,531</u>
	<u>\$ 1,009,297</u>	<u>\$ 13,665</u>	<u>\$ 0</u>	<u>\$ 1,022,962</u>

NOTE 5 - ACCOUNTS PAYABLE-OTHER GOVERNMENTS

At December 31, 2009, accounts payable-other governments consisted of the following:

U.S. Department of Transportation — Federal Transit Formula Grant	\$ 129,015
U.S. Department of Homeland Security – FEMA	<u>200,000</u>
	<u>\$ 329,015</u>

On November 2, 2007, the City of Jonesboro gave a written 60 day notice to FEMA indicating the City's intention of terminating the Cooperating Technical Partners Grant agreement with FEMA with an effective date of January 1, 2007. The payable to FEMA shown above is for the total amount received by the City of Jonesboro for the Cooperating Technical Partners Grant.

NOTE 6 - CONTINGENCIES

The City is subject to possible examinations with respect to these grants made by regulators who determine compliance with terms, conditions, laws and regulations governing the grants. Any examinations made may result in required refunds by the City to grantor.

SUPPLEMENTARY INFORMATION

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2009

<u>Federal Grantor/Pass-through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through entity I. D. number</u>	<u>Federal Expenditures</u>
U. S. Department of Housing and Urban Development			
Pass-through Program:			
Community Development Block Grant	14.218		
Pass-through program from Arkansas State Office Community Planning and Development		B-09-MC-05-0012	\$ 518,150
U. S. Department of Justice			
Direct Programs:			
Bulletproof Vest Partnership Program	16.607		12,107
Office of Community Oriented Policing Services ARRA	16.710		45,745
Edward Byrne Justice Assistance Grant	16.738		36,044
Edward Byrne Justice Assistance Grant - ARRA	16.804		39,024
Pass-through Programs:			
Internet Crimes Against Children	16.543		
Pass-through program from Arkansas State Police		ICAC07-021	2,245
Internet Crimes Against Children ARRA	16.800		
Pass-through program from Arkansas State Police		ICAC-ARRA	11,420

See accompanying notes to schedule of expenditures of federal awards.

<u>Federal Grantor/Pass-through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through entity I. D. number</u>	<u>Federal Expenditures</u>
U. S. Department of Transportation			
Direct Programs:			
Federal Transit Administration Federal Transit Formula Grants	20.507		709,157
Pass-through Programs:			
Federal Highway Administration Transportation and Drainage Planning	20.205		
Pass-through program from Arkansas State Highway and Transportation Department			55,259
Federal Transit Administration Metropolitan Planning Grant	20.505		
Pass-through program from Arkansas State Highway and Transportation Department		AR-81-X014	98,613
Selective Traffic Enforcement Project	20.600		
Pass-through program from Arkansas State Highway and Transportation Department		OP-2009-03-02-17/OP-2010-03-02-21	43,999
U.S. Department of Homeland Security			
Pass-through Programs:			
Disaster Grants – Public Assistance	97.036		
Pass-through program from Arkansas Department of Emergency Management		FEMA 1804/1819-DR-AR	<u>1,656,658</u>
Total expenditures of federal awards			<u>\$ 3,228,421</u>

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2009

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Jonesboro, Arkansas, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

City Council
City of Jonesboro, Arkansas
P. O. Box 1845
Jonesboro, AR 72403

We have audited the financial statements of the federal grant funds of the City of Jonesboro, Arkansas, as of and for the year ended December 31, 2009, and have issued our report thereon dated September 22, 2010. 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 of Jonesboro, Arkansas federal grant funds' 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 of Jonesboro, Arkansas federal grant funds' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Jonesboro, Arkansas federal grant funds' 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 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.

Our consideration of 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 above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. Finding 2009-1. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Jonesboro, Arkansas, federal grant funds' financial statements are free of material misstatement, we performed tests of their 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2009-1.

City of Jonesboro, Arkansas, federal grant funds' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Jonesboro, Arkansas, federal grant funds' response and, accordingly, we express no opinion on it.

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

FREEMAN & COMPANY, INC.

A handwritten signature in cursive script that reads "Freeman & Company, Inc".

Jonesboro, Arkansas
September 22, 2010

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

City Council
City of Jonesboro, Arkansas
P. O. Box 1845
Jonesboro, AR 72403

Compliance

We have audited the compliance of the City of Jonesboro, Arkansas, federal grant funds with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of their major federal programs for the year ended December 31, 2009. The City of Jonesboro, Arkansas, federal grant funds' major federal programs are identified in the summary of auditor's 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 their major federal programs is the responsibility of the City of Jonesboro, Arkansas, federal grant funds' management. Our responsibility is to express an opinion on the City of Jonesboro, Arkansas, federal grant funds' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Jonesboro, Arkansas, federal grant funds' 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 Jonesboro, Arkansas, federal grant funds' compliance with those requirements.

In our opinion, the City of Jonesboro, Arkansas, federal grant funds complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009. 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 and which are described in the accompanying schedule of findings and questioned costs as item 2009-1.

Internal Control Over Compliance

The management of the City of Jonesboro, Arkansas, federal grant funds is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Jonesboro, Arkansas, federal grant funds' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Jonesboro, Arkansas, federal grant funds' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined.

A significant deficiency in internal control over compliance is a deficiency, or 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-1 to be a significant deficiency.

City Council
Page Three

City of Jonesboro, Arkansas, federal grant funds' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Jonesboro, Arkansas, federal grant funds' response and, accordingly, we express no opinion on it.

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

FREEMAN & COMPANY, INC.

A handwritten signature in cursive script that reads "Freeman & Company, Inc".

Jonesboro, Arkansas
September 22, 2010

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2009

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *unqualified*

Internal control over financial reporting:

- Material weakness identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? X Yes _____ No

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program:

- Material weakness identified _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? X Yes _____ No

Type of auditor's report issued on compliance for major programs: *unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes _____ No

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2009

SECTION I - SUMMARY OF AUDITOR'S RESULTS (Continued)

Identification of major programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>
14.218	U. S. Department of Housing and Urban Renewal Community Development Block Grant
20.507	U.S. Department of Transportation Federal Transit Administration Federal Transit Formula Grants
97.036	U.S. Department of Homeland Security Disaster Grants – Public Assistance

Dollar threshold used to distinguish between type A
and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ Yes X No

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

SECTION II: FINDINGS AND QUESTIONED COSTS
MAJOR FEDERAL AWARD PROGRAMS AUDIT

December 31, 2009

U. S. DEPARTMENT OF HOMELAND SECURITY

2009-1 Disaster Grants – Public Assistance - 97.036; Grant No. FEMA 1804/1819-DR-AR;
Grant period – Year ended December 31, 2009.

Statement of Condition: Charges totaling \$375,515 were requested for reimbursement in the amount of \$281,636 for expenditures that the supporting documentation could not be provided by management.

Criteria: Expenditures requested for reimbursement should be adequately documented.

Effect of Condition: Future grant awards could be denied.

Cause of Condition: Retention of required documents was not monitored by management.

Recommendation: Management should supervise the employee responsible for retaining documentation pertinent to grant management. Management should continue to monitor this process to ensure retention of documents required for proper grant management.

View of Responsible Officials: The City of Jonesboro has reorganized staff to provide management overview of all grant related activity. On November 17, 2009, the council approved our new financial policies, which included specific grants policies and procedure, which all department heads will be required to learn and comply with. The retention of grants related documents is currently the sole responsibility of the Grants Department.

Furthermore, the Grants Administrator will also work closely with FEMA Project Specialist in the future to gain a full understanding of supported charges as presented on Project Worksheets. Whereas work on many of the projects claimed by the City of Jonesboro has been complete upon submission to FEMA, personnel did not fully understand how the calculations were derived. Working with the Project Specialist at the time of submission to retain all supporting documents will be the responsibility of the Grants Administrator.

Please contact Harold Perrin, Mayor of the City of Jonesboro, at 870-932-1052 should you have any questions concerning this response.

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

December 31, 2009

U. S. DEPARTMENT OF TRANSPORTATION

2008-1 Federal Transit Formula Grant – CFDA No. 20.507; Grant period – Year ended December 31, 2008.

Statement of Condition: Charges totaling \$199,170 were requested for reimbursement in the amount of \$155,480 that was unallowable due to being either duplicated or unallowable charges.

Criteria: Request for reimbursement should accurately reflect activity of the grant.

Effect of Condition: Future grant awards could be denied.

Cause of Condition: Management neglected to reconcile requests for reimbursement to the accounting records.

Recommendation: Management should review accounting records to assure that any requests for reimbursement are supported by expenditures recorded in the accounting records.

View of Responsible Officials: The City of Jonesboro has reorganized staff to provide management overview of all grant accounting under the oversight of the Finance Department. This position of accounting specialist in the JETS will be moved to Finance, but will also be under general supervision of the Grants Administrator. It will not be necessary to move the position physically; but all grant draw downs and requests, including the documentation will be approved by the Grants Administrator, with accounting reviewed by the Financial Accountant.

In an effort to improve grants accounting, the city has started utilizing the project management module within Springbrook. This will allow for more efficient and easier tracking of grant revenues to expenditures. By the end of the year, the implementation of the project management accounting for grants activity will be complete.

On November 17, 2009 the council approved our new financial policies, which included specifically grants policies and procedure, which all department heads will be required to learn and comply with. Furthermore, at month-end, all grants activities will be reviewed for proper documentation by the Compliance Officer in conjunction with the Grants Administrator. The Compliance Officer will prepare a monthly report of “findings and recommendations” for the Mayor and Administration.

Current Status: No significant findings were noted in the 2009 audit related to this program.

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

December 31, 2009

U. S. DEPARTMENT OF TRANSPORTATION (CONTINUED)

2008-2 Metropolitan Planning Grant - 20.505; Grant No. AR-81-X013; Grant period – Year ended December 31, 2008.

Statement of Condition: Charges totaling \$11,470 were requested for reimbursement in the amount of \$9,176 for expenditures that were subsequently reduced.

Criteria: Expenditures requested for reimbursement should be actual expenditures.

Effect of Condition: Future grant awards could be denied.

Cause of Condition: The expenditure accounts were reduced by the stated amounts but subsequent requests for reimbursement were not adjusted to reflect the reductions.

Recommendation: Management should reconcile accounting records to assure that any reductions in expenditures are appropriately reflected.

View of Responsible Officials: The City of Jonesboro will add reconciliation of grants accounting to its end of month procedures. Between the grants oversight and compliance review, we can prevent accounting and reimbursement errors like these from recurring.

Current Status: No similar findings were noted in the 2009 audit related to this program.

CITY OF JONESBORO, ARKANSAS
FEDERAL GRANTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

December 31, 2009

U. S. DEPARTMENT OF HOMELAND SECURITY

2008-3 Disaster Grants – Public Assistance - 97.036; Grant No. FEMA 1751-DR-AR; Grant period – Year ended December 31, 2008.

Statement of Condition: Charges totaling \$51,866 were requested for reimbursement in the amount of \$38,900 for expenditures that the supporting documentation could not be provided by management.

Criteria: Expenditures requested for reimbursement should be adequately documented.

Effect of Condition: Future grant awards could be denied.

Cause of Condition: Retention of required documents was not monitored by management.

Recommendation: Management should supervise the employee responsible for retaining documentation pertinent to grant management. Management should continue to monitor this process to ensure retention of documents required for proper grant management.

View of Responsible Officials: By having both the Grants Administrator and the Compliance Officer review these processes and reports, in addition to the department head managing the grants activity, it should prevent this “unqualified draw-downs” finding in the future.

The change in staffing noted in the response to item #1 above will give the City compliance with the principles of “separation of duties” and “proper management oversight” of all grants activities.

In addition to your review and findings, we had already begun additional review and audits of several areas including JETS. Our staff reviewed internal controls, cash handling and have already made similar recommendations as your audit, in an effort to strengthen controls and give granting agencies the confidence that the City takes its record keeping responsibilities seriously.

Please contact Harold Perrin, Mayor of the City of Jonesboro, at 870-932-1052 should you have any questions concerning this response.

Current Status: See finding 2009-1.