

CITY OF WAUKESHA
Waukesha, Wisconsin

REPORT ON FEDERAL AND STATE AWARDS

For the Year Ended December 31, 2011

CITY OF WAUKESHA

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Common Council
City of Waukesha
Waukesha, Wisconsin

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 Waukesha, Wisconsin as of and for the year ended December 31, 2011, which collectively comprise the City of Waukesha'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. 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.

A separate report on internal control over financial reporting and on compliance and other matters was issued for the Housing Authority of the City of Waukesha, a discretely presented component unit of the City of Waukesha. The information contained in that report is not included in this report.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting 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 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. This material weakness is item 2011-01.

To the Common Council
City of Waukesha

Compliance and Other Matters

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

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

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

This report is intended solely for the information and use of the City of Waukesha's management, the 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.

Baker Tilly Veritow Kruse, LLP

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
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

To the Common Council
City of Waukesha
Waukesha, Wisconsin

Compliance

We have audited the City of Waukesha'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 Waukesha's major federal and major state programs for the year ended December 31, 2011. The City of Waukesha'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 Waukesha's management. Our responsibility is to express an opinion on the City of Waukesha's compliance based on our audit.

The City of Waukesha's basic financial statements include the operations of the Housing Authority of the City of Waukesha, which received \$5,195,682 in federal awards which is not included in the schedule of expenditures of federal and state awards for the year ended December 31, 2011. Our audit, described below, did not include the operations of the Housing Authority of the City of Waukesha because the component unit had a separate audit in accordance with OMB Circular A-133.

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 Waukesha'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 Waukesha's compliance with those requirements.

In our opinion, City of Waukesha 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.

To the Common Council
City of Waukesha
Waukesha, Wisconsin

Internal Control Over Compliance

Management of the City of Waukesha 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 Waukesha'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 Waukesha'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.

Schedule 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 Waukesha 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 opinions on the financial statements that collectively comprise the City of Waukesha's financial statements. Our report was modified due to the implementation of Governmental Accounting Standards Board Statement No. 54. 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.

This report is intended solely for the information and use of the City of Waukesha's management, the 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.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
July 23, 2012

CITY OF WAUKESHA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended December 31, 2011

Grantor Agency/Pass Through Agency/ Grant or Project Title/Grant or Project Number	Federal CFDA Number	Program or Award Amount	Revenues			Total	Expenditures	
			(Accrued) Deferred 12/31/2010	Revenue Recorded	Cash Received		Accrued (Deferred) 12/31/2011	Local
FEDERAL PROGRAMS								
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT								
Passed through Waukesha County, Wisconsin								
Community Development Block Grant (CDBG) - Entitlement Grants Cluster								
2009	14,218	\$ 260,000	\$ 280	\$ 2,988	\$ -	\$ 2,708	\$ -	\$ 2,988
2010 - ARRA	14,253	1,16,000	(89,861)	25,026	-	114,887	-	25,026
2010	14,218	245,000	(10,596)	63,717	61,367	12,946	-	63,717
2011	14,218	238,000	(100,177)	142,178	87,005	55,173	-	142,178
Total CDBG State - Entitlement Grants Cluster								
Passed through Waukesha County, Wisconsin								
Community Development Block Grants/State's Program and Non-Entitlement								
Grants in Hawaii (State-Administered Small Cities Program)	14,228	230,000	-	142,810	157,583	(14,773)	-	142,810
Community Development Block Grants/State's Program and Non-Entitlement								
Grants in Hawaii (State-Administered Small Cities Program)	14,228	525,000	-	480,738	-	480,738	-	480,738
Total Community Development Block Grants/State's Program and								
Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)								
Direct Award								
Lead Hazard Reduction Demonstration Grant Program	14,905	92,060	-	88,068	-	88,068	-	88,068
Passed through the Department of Commerce								
ARRA - Lead Hazard Reduction Demonstration Grant Program	14,909	180,000	-	145,458	145,458	-	6,036	151,494
Passed through the Department of Administration								
ARRA - Lead Hazard Reduction Demonstration Grant Program	14,909	180,000	-	9,542	9,542	-	-	9,542
Total Lead Hazard Reduction Demonstration Grant Program								
Total U.S. Department of Housing and Urban Development								
U.S. DEPARTMENT OF JUSTICE								
Passed through the Department of Administration								
National Criminal History Improvement Program	16,554	19,000	-	14,250	14,250	-	4,750	19,000
Direct Award								
Edward Byrne Memorial Justice Assistance								
2009	16,738	18,822	9,849	9,849	-	-	-	9,849
2011	16,738	16,355	-	2,114	11,355	(9,241)	-	2,114
2011	16,738	13,472	-	-	13,472	(13,472)	-	-
Total Edward Byrne Memorial Justice Assistance								
Passed through the Department of Justice								
ARRA - Internet Crimes Against Children Task Force Program (ICAC)	16,800	1,500	-	1,439	1,439	-	-	1,439
Total U.S. Department of Justice								
U.S. DEPARTMENT OF HOMELAND SECURITY								
Passed through the Department of Military Affairs								
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97,036	123,944	25,649	10,108	-	(15,541)	36,070	46,178
Direct Award								
Assistance to Firefighters Grant	97,044	21,680	-	21,137	-	21,137	5,420	26,557
Total U.S. Department of Homeland Security								
U.S. ENVIRONMENTAL PROTECTION AGENCY								
Direct Award								
Congressionally Mandated Projects	66,202	388,000	(388,000)	-	388,000	-	-	-
U.S. DEPARTMENT OF ENERGY								
Direct Award								
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81,128	657,400	(463,803)	193,597	657,400	-	-	193,597

See accompanying notes to schedule of expenditures of federal and state awards.

CITY OF WAUKESHA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended December 31, 2011

Grantor Agency/Pass Through Agency/ Grant or Project, Title/Grant or Project Number	Federal CFDA Number	Program or Award Amount	Revenues				Expenditures	
			(Accrued) Deferred 12/31/2010	Revenue Recorded	Cash Received	Accrued (Deferred) 12/31/2011	Local	Granitor
FEDERAL PROGRAMS								
U.S. DEPARTMENT OF TRANSPORTATION								
Direct Award								
Highway Planning and Construction	20.205	\$ 220,720	\$ -	\$ 1,702	\$ -	\$ 1,702	\$ 426	\$ 2,128
Highway Planning and Construction	20.205	144,680	-	24,876	-	24,876	6,219	31,095
Total Highway Planning and Construction				26,576		26,576	6,645	33,223
Passed through Wisconsin Department of Transportation								
Highway Safety Cluster								
State & Community Highway Safety								
2011	20.600	35,000	-	29,607	29,607	-	-	29,607
2012	20.600	34,450	-	3,676	-	3,676	-	3,676
Alcohol Impaired Driving Countermeasures Incentive Grant I								
2011	20.601	35,000	-	29,775	29,775	-	-	29,775
2012	20.601	34,200	-	3,353	-	3,353	-	3,353
Total Highway Safety Cluster				66,411	59,382	7,029	-	66,411
Direct Award								
Federal Transit Cluster								
Federal Transit Formula Grants								
WI-90-0472	20.507	1,608,656	(6,734)	7,924	14,658	-	-	7,924
WI-90-0492	20.507	972,312	(6,676)	10,250	6,720	10,206	-	10,250
WI-90-0531	20.507	1,062,154	-	24,918	1,568	23,350	-	24,918
WI-90-0545	20.507	1,108,365	(1,600)	-	1,600	-	-	-
WI-90-0568	20.507	1,055,421	(266,193)	707	266,900	-	-	707
WI-90-0649	20.507	967,563	-	924,658	-	924,658	-	924,658
WI-96-0017 - ARRA	20.507	1,477,951	(111,735)	-	111,735	-	-	-
Total Federal Transit Formula Grants			(392,938)	968,457	403,181	958,214	-	968,457
Passed through WI Department of Transportation								
Section 5309 - Capital Improvement - WI-04-0006	20.500	n/a	-	13,827	13,827	-	-	13,827
Section 5309 - Capital Improvement - WI-04-0009	20.500	416,000	-	410,937	-	410,937	-	410,937
Total Section 5309 - Capital Improvement				424,764	13,827	410,937	-	424,764
Direct Award								
Congestion Mitigation and Air Quality Grant - WI-95-X004	20.507	334,242	(3,824)	34,352	15,525	22,651	-	34,352
Congestion Mitigation and Air Quality Grant - WI-95-X010	20.507	60,750	-	18,167	7,085	11,082	-	18,167
Passed through WI Department of Transportation								
Congestion Mitigation and Air Quality Grant - WI-90-X423	20.507	477,524	(3,989)	3,107	6,700	396	-	3,107
Congestion Mitigation and Air Quality Grant - WI-90-X451	20.507	413,568	(20,374)	6,586	26,960	-	-	6,586
Total Congestion Mitigation and Air Quality Grant			(28,187)	62,212	56,278	34,129	-	62,212
Total Federal Transit Cluster			(421,125)	1,455,433	473,278	1,403,280	-	1,455,433
Total U.S. Department of Transportation			(421,125)	1,948,422	532,660	1,436,687	6,645	1,555,067
TOTAL FEDERAL AWARDS			\$(1,337,607)	\$ 2,901,441	\$ 2,079,531	\$ 2,159,517	\$ 58,921	\$ 2,960,362

CITY OF WAUKESHA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Concluded)

For the Year Ended December 31, 2011

Grantor Agency/Pass Through Agency/ Grant or Project Title/Grant or Project Number	State ID Number	Program or Award Amount	Revenues				Expenditures	
			(Accrued) Deferred 12/31/2010	Revenue Recorded	Cash Received	Accrued (Deferred) 12/31/2011	Local	Grantor
STATE PROGRAMS								
WISCONSIN DEPARTMENT OF TRANSPORTATION								
2009 Transit Operating Aids	395.104	\$ 4,777,366	\$ 119,511	\$ -	\$ -	\$ (119,511)	\$ -	\$ -
2010 Transit Operating Aids	395.104	4,521,788	(1,077,056)	-	678,286	398,770	-	-
2011 Transit Operating Aids	395.104	4,725,241	-	4,610,478	4,252,716	357,762	4,610,478	4,610,478
Total Wisconsin Department of Transportation			(957,545)	4,610,478	4,931,002	637,021	4,610,478	4,610,478
WISCONSIN DEPARTMENT OF MILITARY AFFAIRS								
State Match - Federal Disaster Assistance Grant	465.305	20,657	-	20,657	20,657	-	20,657	20,657
WISCONSIN DEPARTMENT OF NATURAL RESOURCES								
Acquisition and Development of Local Parks	370.TA2	210,000	105,000	-	-	(105,000)	34,107	34,107
Urban Nonpoint Source Pollution & Storm Water Grant	370.658	58,100	-	47,954	176,571	-	47,954	176,571
Total Wisconsin Department of Natural Resources			105,000	47,954	47,954	(105,000)	47,954	224,525
TOTAL STATE AWARDS			<u>\$ (852,545)</u>	<u>\$ 4,679,089</u>	<u>\$ 4,999,613</u>	<u>\$ 532,021</u>	<u>\$ 4,679,089</u>	<u>\$ 4,889,767</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ (2,190,152)</u>	<u>\$ 7,580,530</u>	<u>\$ 7,079,144</u>	<u>\$ 2,691,538</u>	<u>\$ 7,580,530</u>	<u>\$ 7,850,129</u>

CITY OF WAUKESHA

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

NOTE 1 – REPORTING ENTITY

This report on Federal and State Awards includes the federal and state awards of the City of Waukesha. The reporting entity for the City of Waukesha is based upon criteria established by the Governmental Accounting Standards Board.

The City of Waukesha is the primary government according to GASB criteria, while the Business Improvement District (BID) and the Housing Authority of the City of Waukesha (Housing Authority) are component units.

Federal and state awards received directly by the Housing Authority are not included in this report since the Housing Authority has been audited for their grants and those amounts are reported in a separate report.

The schedule includes 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 the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations* and the *State Single Audit Guidelines*.

NOTE 3 – PRIOR YEAR FINDINGS

The finding from 2010 reported as No. 2010-01 is still valid in 2011 and has been repeated as finding No. 2011-01.

CITY OF WAUKESHA

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?	<u> X </u> yes	<u> </u> no
Significant deficiency (ies) identified?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal or State Awards

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

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 Circular A-133, Section .510(a)? yes X no

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

Identification of major federal programs

CFDA NUMBER(S)
20.500 and 20.507
14.228

Name of Federal Program or Cluster
Federal Transit Cluster
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)

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

Identification of major state programs

STATE ID NUMBER(S)
395.104

Name of State Program
Transit Operating Aids

Dollar threshold used to distinguish between Type A and Type B programs \$ 100,000

CITY OF WAUKESHA

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

Section II: Financial Statement Findings

Finding No. 2011-01: Internal Control over Financial Reporting - Financial Statement Preparation

Criteria: Statement on Auditing Standards No. 115 requires communication of significant deficiencies and material weaknesses in the year end reporting process.

Condition: The City's personnel do not presently have the necessary time needed to prepare the financial statements, including the schedules of federal and state awards, in accordance with generally accepted accounting principles. Accordingly, the City presently contracts with its audit firm to perform this function.

Questioned Cost: None

Effect: Preparation of yearend financial statements, including the schedules of federal and state awards, by City personnel is not currently done.

Recommendation: Management should evaluate if the benefits achieved by resolving this internal control deficiency warrants the additional cost to hire additional finance staff to achieve the goal of having its external financial statements prepared by the City personnel.

Management's

Response: Management concurs with the finding and has determined that the economic cost of addressing this issue out weighs the benefits to be achieved at this time.

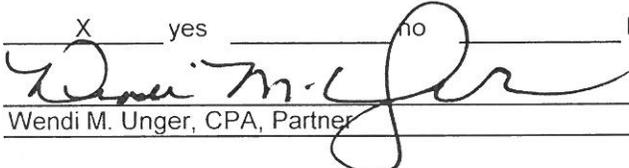
Section III: Federal and State Awards Findings and Questioned Costs

There were no federal and state awards findings or questioned costs.

CITY OF WAUKESHA

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 Natural Resources | _____ | yes | _____ | X | no | _____ | N/A |
| Department of Military Affairs | _____ | yes | _____ | X | no | _____ | N/A |
| Department of Transportation | _____ | yes | _____ | X | 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, CPA, Partner
5. Date of report
July 23, 2012
