

**CITY OF VALLEY, ALABAMA
SINGLE AUDIT SCHEDULES AND REPORTS
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2011**

CITY OF VALLEY, ALABAMA
SINGLE AUDIT SCHEDULES AND REPORTS
YEAR ENDED SEPTEMBER 30, 2011

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

Honorable Mayor and Members of the City Council
City of Valley, Alabama

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valley, Alabama (the “City”) as of and for the year ended September 30, 2011, which collectively comprise the City’s basic financial statements and have issued our report thereon dated March 29, 2013. 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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 material weaknesses and other deficiencies that we consider to be significant deficiencies.

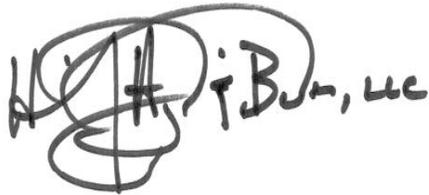
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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. We consider a deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (See finding 11-01). We consider the other deficiencies described in the accompanying schedule of findings and questions costs to be significant deficiencies (See findings 11-02 through 11-04)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’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*.

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

This report is intended solely for the information and use of management, the City Council, 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.

A handwritten signature in black ink, appearing to read "H. Wright Huguley & Boles, LLC". The signature is stylized and somewhat cursive, with the letters "H", "W", "H", "B", and "L" being particularly prominent.

Auburn, Alabama
March 29, 2013

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***INDEPENDENT AUDITOR'S 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***

Compliance

We have audited the City of Valley, Alabama's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2011. The City's 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 its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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'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's compliance with those requirements.

In our opinion, the City 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 programs for the year ended September 30, 2011.

Internal Control Over Compliance

Management of the City 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's internal control over compliance with the requirements that could have a direct and material effect on a major federal 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, 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's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing

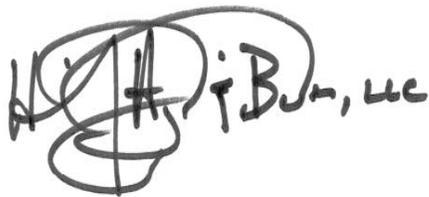
their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 that we consider to be a material weakness in internal control over compliance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Valley, Alabama, as of and for the year ended September 30, 2011, and have issued our report thereon dated March 29, 2013. In our report, our opinion was qualified because the financial data for various component units was not reported with the financial data of the City's primary government in accordance with generally accepted accounting principles. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, 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 additional 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 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 management, the City Council, others within the entity, 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.



Auburn, Alabama
March 29, 2013

CITY OF VALLEY, ALABAMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2011

FEDERAL GRANT OR PASS THROUGH GRANT OR PROGRAM TITLE	FEDERAL CFDA NUMBER	IDENTIFICATION NUMBER	AMOUNT OF EXPENDITURES
Community Planning and Development, Department of Housing and Urban Development Community Development Block Grant/Entitlement Grant	14.228	LR-CM-PF-09-011	\$ 489,898
National Park Service, Department of the Interior History of City of Valley and Mill Villages	15.904	AL-10-016#2	2,374
Bureau of Justice Assistance, Department of Justice Bulletproof Vest Partnership Program	16.607	OMB #1121-0235	14,260
Administration for Community Living, Department of Health & Human Services Special Programs for the Aging Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	04-11-3-44	14,946
Federal Highway Administration, Department of Transportation Recreational Trails Program	20.219	09-RT-54-10	9,524
Environmental Protection Agency American Recovery and Reinvestment Act Brownfields Assessment and Cleanup Cooperative Agreements - Langdale Mill	66.818	BF-95408907	3,288
Brownfields Assessment and Cleanup Cooperative Agreements - Riverdale Mill	66.818	BF-95408908	<u>1,843</u>
Total Environmental Protection Agency			5,131
Office of Community Oriented Policing Services, Department of Justice/Public Safety Partnership and Community Policing Grants COPS Universal Hiring Program	16.592	2009RKWX0030	34,720
Homeland Security Grant Program, Department of Homeland Security Homeland Security Grant	97.067	ALDHS-08-0592	14,163
Edward Byrne Memorial Justice Assistance Grant Program Department of Justice, Bureau of Justice Assistance Byrne Justice Assistance Grant (JAG) Traffic Enforcement Safety Grant	16.738	07-DJ-1-42	<u>25,880</u>
Total Federal Expenditures			<u><u>\$ 610,896</u></u>

The accompanying note is an integral part of this schedule.

CITY OF VALLEY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2011

Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Valley, Alabama and is presented on the modified accrual basis of accounting. (Expenditures are recognized when the liability is incurred.) The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State and 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.

CITY OF VALLEY, ALABAMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Qualified	
Internal control over financial reporting: Significant deficiencies identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:		
Significant deficiencies identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified that are not considered to be material weaknesses?	<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 Section 510(a) of Circular A-133?	<u> </u> Yes	<u> X </u> No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.228

Community Planning and Development, Department of Housing
and Urban Development, Community Development Block Grant/
Entitlement Grant

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

\$300,000

Auditee qualified as low-risk auditee?	<u> </u> Yes	<u> X </u> No
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Findings Related to the Financial Statements in accordance with Generally Accepted Government Auditing Standards (GAGAS):

- 11-01 During our audit, we noted that the City did not appropriately record and adjust various asset and liability accounts, as well as related revenue and expense accounts at year end. Subsequent to year end, we noted that the City has hired an additional accountant for the Accounting department to assist with recording and reconciling transactions in the City's financial system. We commend management for their attention to this matter.
- 11-02 During our audit, we noted that some City grant funds received and related expenses are not recorded in separate grant accounts. We also noted that this makes it more difficult for the City to determine when a Single Audit is required and to compile the required information and documentation for the Schedule of Expenditures of Federal Awards. Subsequent to year end, we noted that management is implementing new documentation requirements and is considering changes to how the grant revenues and related expenses are recorded in the City's financial system to provide greater transparency for those transactions. We commend management for their prompt attention to this matter. Additionally, we recommend that the City provide the employees responsible for recording and tracking grant revenues, expenses, and compliance requirements with annual grant and Single Audit training. We also recommend that the management consider designating an employee in the Accounting department to be responsible for coordinating with the City's Grant Manager to ensure that the City is in compliance with all grant requirements and that revenues and expenses are appropriately recorded in the City's financial system.
- 11-03 During our audit, we noted that while the City Treasurer and accounting personnel perform their duties well, they do not have the training to apply Generally Accepted Accounting Principles in recording transactions and preparing financial statements. Subsequent to year end, we noted that the City hired an Accountant with prior governmental accounting experience. We commend management for their attention to this matter. However, we also recommend that the City provide the Treasurer and the Accountant with annual governmental accounting training.
- 11-04 During our audit, we noted that the City purchased assets that were over the City's capitalization threshold and recorded those purchases as expenses instead of as capital outlay. Subsequent to year end, we noted that the City hired an additional accountant and intends to have the Accountant review those accounts on an annual basis for compliance with the City's capitalization policy. We commend management for their prompt attention to this matter.

We also make the following recommendation to that we believe merits the attention of management of the City of Valley, Alabama:

During our audit, we noted that the City Department Heads do not use a consistent template to submit payroll information to the Accounting department. We also noted that various Department Heads allowed employees to accrue vacation and comp time in excess of the hours allowed by City payroll policy or to accrue comp time that is not covered by City policy. Subsequent to year end, we noted that the City is discontinuing its practice of allowing employees to earn comp time. We commend management for their attention to this matter. We also recommend that management allow vacation time to be accrued only in

accordance with City policy. We further recommend that the City create a standardized payroll submission template and require all City departments to use the template for future payroll submissions. We suggest that the template include employee payroll information sufficient to demonstrate compliance with City payroll policies including vacation and sick time and that all pay periods have the same period dates for each City department.

Findings and Questioned Costs for Federal Awards

The audit did not disclose any federal awards findings or questioned costs that are required to be reported.