

City of Ann Arbor

Single Audit

June 30, 2021



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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*

Independent Auditors' Report

Honorable Mayor and Members of City Council
City of Ann Arbor
Ann Arbor, MI

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ann Arbor, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Ann Arbor's basic financial statements, and have issued our report thereon dated December 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Ann Arbor's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Ann Arbor's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Ann Arbor's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ann Arbor's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

The City of Ann Arbor's Response to the Finding and Corrective Action Plan

The City of Ann Arbor's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The City of Ann Arbor's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeo & Yeo, P.C.

Ann Arbor, MI
December 15, 2021



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Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Honorable Major and Members of City Council
City of Ann Arbor
Ann Arbor, MI

Report on Compliance for Each Major Federal Program

We have audited the City of Ann Arbor's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Ann Arbor's major federal programs for the year ended June 30, 2021. The City of Ann Arbor's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Our report includes a reference to other auditors who audited the financial statements of the Ann Arbor Housing Commission, as described in our report on the City of Ann Arbor's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

The City of Ann Arbor's basic financial statements include the operations of the Ann Arbor Housing Commission, which received \$19,235,083 in federal awards, which is not included in the schedule of expenditures of federal awards during the year ended June 30, 2021. Our audit, described below, did not include the operations of the Ann Arbor Housing Commission because the Ann Arbor Housing Commission engaged other auditors to perform an audit of compliance.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Ann Arbor's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Ann Arbor's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Ann Arbor's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Ann Arbor complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the City of Ann Arbor is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Ann Arbor's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ann Arbor's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ann Arbor, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Ann Arbor's basic financial statements. We issued our report thereon dated December 15, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying

accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Ann Arbor, MI
December 15, 2021

City of Ann Arbor
Schedule of Expenditures of Federal Awards
For the Year ended June 30, 2021

	Federal Assistance Listing Number	Federal or Pass - Through Grant Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Agricultural Conservation Easement Program	10.931	555D211801Q95	\$ 213,750
<u>U.S. Department of Justice</u>			
Domestic Violence Supplemental Grant	16.590	2016-WE-AX-0031	12,891
<u>U.S. Department of Transportation</u>			
Domestic Violence Supplemental Grant	20.106	B-26-0005-2116	26,519
<u>U.S. Department of Treasury</u>			
COVID-19 - Public Safety and Public Health Payroll Reimbursement Program (PSPHPR)	21.019	N/A	3,077,338
COVID-19 - First Responders Hazard Pay Premiums Program (FRHPPP)	21.019	N/A	205,000
COVID-19 - FAA CARES ACT	21.019	3-26-SBGP-117-2020	69,000
COVID-19 - Coronavirus Relief Local Government Grants Program (CRLGG)	21.019	N/A	452,430
Total U.S. Department of Treasury			3,803,768
<u>Executive Office of the President</u>			
Passed through MSP, Washtenaw County:			
High Intensity Drug Trafficking Areas Program	95.001	N/A	3,988
<u>U.S. Department of Homeland Security</u>			
Passed through the Michigan State Police, Emergency Management Division:			
2020 Emergency Management Performance Grant	97.042	EMC-2020-EP-00005	44,609
Hazard Mitigation-Allen Creek	97.039	P4195.16	2,300,440
Total U.S. Department of Homeland Security			2,345,049
Total Federal Expenditures of Federal Awards			\$ 6,405,965

City of Ann Arbor
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2021

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Ann Arbor under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of Ann Arbor, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Ann Arbor

The City's reporting entity is defined in Note 1 of the City's annual comprehensive financial report. The City's financial statements include the operations of the Ann Arbor Housing Commission, a discretely-presented component unit, which received federal awards that are not included in the Schedule for the year ended June 30, 2021, as this entity was separately audited.

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the Schedule are reported on the modified accrual or accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance, OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The City of Ann Arbor has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Other Federal Revenue

The City is an indirect beneficiary of federal funds that are expended directly by the Michigan Department of Transportation. These expenditures (which totaled \$2,183,834 for the year ended June 30, 2021) are included in the single audit for the State of Michigan.

Note 4 - Reconciliation to the Financial Statements

Federal grants per governmental fund statements	\$ 5,753,515
Airport Fund grant included in capital contributions on the enterprise fund statements	95,519
Change in deferred inflows of resources related to federal grants	<u>556,931</u>
Total expenditures of federal awards	<u>\$ 6,405,965</u>

Note 5 - Subrecipients

No amounts were provided to subrecipients.

Note 6 - Personal Protective Equipment (Unaudited)

Personal protective equipment that was originally purchased with federal assistance with a fair market value of \$1,000 was donated to the City.

City of Ann Arbor
Summary Schedule of Prior Audit Findings
June 30, 2021

Section I – Summary of Auditors’ Results

Financial Statements

Type of report the auditor issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified yes X none reported

Type of auditors’ report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major federal programs:

<i>Assistance Listing Number(s)</i>	<i>Name of Federal Program or Cluster</i>
21.019	Coronavirus Relief Fund

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

Auditee qualified as low-risk auditee? yes X no

City of Ann Arbor
Summary Schedule of Prior Audit Findings
June 30, 2021

Section II – Government Auditing Standards Findings

2021-001 – Material Weakness – Audit Adjustments

Specific requirement: Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition: A material journal entry was proposed by the auditors to properly account for a debt service payment that was posted to the Parking System Fund rather than the General Debt Service Fund in the amount of \$1,459,938. This misstatement was not detected by the City’s internal control over financial reporting in a timely manner. The entry proposed by the auditors was considered quantitatively material to the Parking System Fund.

Cause: The incorrect fund was selected when the transaction was processed.

Effect: Had the journal entry not been recorded, the financial statements would have been materially misstated for the Parking System Fund.

Recommendation: We recommend the City establish a process to ensure all debt payments are made out of the appropriate fund.

Views of responsible officials: Management has considered, agreed with, and posted the journal entries.

Corrective action plan: See attached.

Section III – Federal Award Findings

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2021.

Section IV – Prior Audit Findings

Government Auditing Standards Findings

2020-001 – Material Weakness – Audit Adjustments

Criteria: Material journal entries were not detected by the City’s internal control over financial reporting, partly due to delayed payments by other governments, which historically was received within 60 days of year end.

Status: Corrected.

Federal Award Findings

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2020.



CITY OF ANN ARBOR, MICHIGAN

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December 15, 2021

Yeo & Yeo, CPAs
1450 Eisenhower Pl.
Ann Arbor, MI 48108

RE: Audit June 30, 2021

Please note the following corrective action plan relating to the material weakness in the City's audit as of June 30, 2021:

2021-001 – Material Weakness – Audit Adjustments

The corrective action plan is to add a quarterly debt reconciliation process to our procedures. The Accountant II has been notified of the weakness and has been provided additional training to ensure accuracy going forward.

The Accountant II will perform the quarterly reconciliation for approval by the Accounting Manager. The plan is effective as of today's date, December 15, 2021.

The Accounting Services Manger will be responsible to ensure that this item is reviewed for future audits and will be completed 60 days following year end for all future years.

Thank you for your attention to this matter.

Very Truly Yours,

Marti Praschan, Chief Financial Officer
City of Ann Arbor