

City of Ann Arbor

Single Audit Report

June 30, 2018



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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

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, 2018, 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 October 12, 2018.

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) to determine the 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. Given these limitations, during our audit we did not

identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 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*.

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 City'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.

October 12, 2018
Ann Arbor, Michigan



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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 Mayor and Members of City Council
City of Ann Arbor

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, 2018. 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.

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.

Auditor's 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, 2018.

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, 2018, 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 October 12, 2018, 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.

October 12, 2018
Ann Arbor, Michigan

City of Ann Arbor
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

	<u>Federal CFDA Number</u>	<u>Federal or Pass-Through Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
Farm and Ranch Lands Protection Program	10.931	54-5D21-15-01JMB	<u>\$ 381,220</u>
U.S. Department of Housing and Urban Development			
Passed through Washtenaw County			
CDBG Entitlement Grants Cluster			
Community Development Block Grant	14.218	B-15-UC-26-0006	14,285
Community Development Block Grant	14.218	B-10-UC-26-0006	89,491
Total CDBG Entitlement Grants Cluster			<u>103,776</u>
U.S. Department of Justice			
Domestic Violence Supplemental Grant	16.590	2016-WE-AX-0031	<u>115,730</u>
U.S. Department of Transportation			
Passed through the State Department of Transportation			
Federal Aviation Administration Block Grant	20.106	B-26-0005-1913	8,900
Passed through the University of Michigan			
Federal Lands Highway Program	20.200	DTFH61-15-H-00005	25,130
Passed through the State Department of Transportation			
Highway Planning and Construction Cluster			
Highway Safety Improvement Program	20.205	HSIP 1781 (029)	35,435
Federal Railroad Administration's High Speed Intercity Passenger Rail Program	20.319	FR-HSR-0066-11-01-00	<u>147,207</u>
Total U.S. Department of Transportation			<u>216,672</u>
U.S. Environmental Protection Agency			
Passed through the State Department of Environmental Quality			
Clean Water State Revolving Fund Cluster			
Capitalization Grants for Clean Water State Revolving Funds			
Project #5441-02	66.458	N/A	<u>229,040</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

City of Ann Arbor
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

	<u>Federal CFDA Number</u>	<u>Federal or Pass-Through Grant Number</u>	<u>Federal Expenditures</u>
Executive Office of the President			
Passed through Michigan State Police, Washtenaw County High Intensity Drug Trafficking Areas Program	95.001	N/A	<u>\$ 218</u>
U.S. Department of Homeland Security			
Passed through State Department of Police, Emergency Management Division			
Hazard Mitigation - 128 Felch	97.039	P4195.2	161
Hazard Mitigation - Allen Creek	97.039	P4195.16	<u>296,687</u>
Total Hazard Mitigation			<u>296,848</u>
2017 Emergency Management Performance Grant	97.042	EMW-2017-EP-00001-S01	42,089
2016 Pre-Disaster Mitigation Grant Program	97.047	PDMC-05-MI-2016-008	107,044
2015 Homeland Security Grant - Urban Areas Security Initiative	97.067	EMW-2015-SS-00033	<u>66</u>
Total U.S. Department of Homeland Security			<u>446,047</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,492,703</u></u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

City of Ann Arbor
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

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, 2018. 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 City of Ann Arbor.

The City's reporting entity is defined in Note 1 of the City's comprehensive annual 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, 2018, as this entity was separately audited.

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance or 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 \$1,455,906 for the year ended June 30, 2018) are included in the single audit for the State of Michigan.

Note 4 - Subrecipients

The City passed through no funds to subrecipients for the year ended June 30, 2018.

City of Ann Arbor
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

Note 5 - Reconciliation to the Financial Statements

Federal grants per governmental fund statements	\$ 1,127,905
Airport Fund grant included in charges for services on the enterprise fund statements	8,900
Water and Sewer Fund grants that have debt and therefore no revenue	229,040
Revenue related to prior year expenditures	<u>126,858</u>
Total expenditures of federal awards	<u>\$ 1,492,703</u>

City of Ann Arbor
Schedule of Findings and Questioned Costs
June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report 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? _____ Yes X No

- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No

- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)? _____ Yes X No

City of Ann Arbor
Schedule of Findings and Questioned Costs
June 30, 2018

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.931	Farm and Ranch Lands Protection Program

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

Auditee qualified as low-risk auditee? X Yes No

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

There were no *Government Auditing Standards* findings for the year ended June 30, 2018.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings for the year ended June 30, 2018.

City of Ann Arbor
Schedule of Prior Year Findings and Questioned Costs
June 30, 2018

SECTION IV - PRIOR AUDIT FINDINGS

GOVERNMENT AUDITING STANDARDS FINDINGS

There were no *Government Auditing Standards* findings for the year ended June 30, 2017.

FEDERAL AWARD FINDINGS

There were no federal award findings for the year ended June 30, 2017.