

City of Ann Arbor,  
Michigan



Year Ended  
June 30, 2016

Single Audit Act  
Compliance

# CITY OF ANN ARBOR, MICHIGAN

## Table of Contents

	<u>Page</u>
Independent Auditors' Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	1
Schedule of Expenditures of Federal Awards	2
Notes to Schedule of Expenditures of Federal Awards	4
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 <i>Government Auditing Standards</i>	5
Independent Auditors' Report on Compliance for the Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	7
Schedule of Findings and Questioned Costs	9
Summary Schedule of Prior Federal Award Audit Findings	11



INDEPENDENT AUDITORS' REPORT ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE

November 4, 2016

To the Honorable Mayor and  
Members of the City Council  
City of Ann Arbor  
Ann Arbor, Michigan

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, Michigan* (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 4, 2016, which contained unmodified opinions on those financial statements. Our report includes a reference to other auditors. 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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.

A handwritten signature in black ink that reads "Rehmann Robson LLC".

**CITY OF ANN ARBOR, MICHIGAN**

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Housing and Urban Development Community Development Block Grant	14.218	WC	B-15-UC-26-0006	\$ 51,788
U.S. Department of Justice Domestic Violence Supplemental Grant	16.590	Direct	2011-WE-AX-0033	79,918
Local Law Enforcement Block Grant- 2015 Justice Assistance Grant	16.738	Direct	2015-DJ-BX-0510	18,606
<b>Total U.S. Department of Justice</b>				<b>98,524</b>
U.S. Department of Transportation Federal Aviation Administration Block Grant	20.106	MDOT	B-26-0005-1913	20,400
Federal Lands Highway Program	20.205	U of M	DTFH61-15-H-00005	24,038
Federal Railroad Administration's High Speed Intercity Passenger Rail Program	20.319	MDOT	FR-HSR-0066-11-01-00	95,778
<b>Total U.S. Department of Transportation</b>				<b>140,216</b>
U.S. Environmental Protection Agency Capitalization Grants For Safe Drinking Water State Revolving Funds:				
Project # 7362-01	66.468	MDEQ	n/a	40,741
Project # 7375-01	66.468	MDEQ	n/a	523,179
<b>Total U.S. Environmental Protection Agency</b>				<b>563,920</b>
U.S. Department of Energy Transportation Technologies - Renewable Energy Research and Development	81.087	MDCIS	DE-EE0000447	134,472
U.S. Election Assistance Commission 2015 Help America Vote Act	90.401	MDS	n/a	9,120
Executive Office of the President High Intensity Drug Trafficking Areas Program	95.001	WC	n/a	7,940

continued...

CITY OF ANN ARBOR, MICHIGAN

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
<b>U.S. Department of Homeland Security</b>				
2014 Emergency Management Performance Grant	97.042	MSP	EMW-2015-EP-00029-S01	\$ 39,144
2014 Assistance to Firefighters Grant	97.044	Direct	n/a	<u>356,668</u>
2014 Homeland Security Grant-Urban Areas Security Initiative	97.067	MSP	n/a	7,528
2015 Homeland Security Grant-Urban Areas Security Initiative	97.067	MSP	n/a	<u>67</u>
				<u>7,595</u>
<b>Total U.S. Department of Homeland Security</b>				<u>46,739</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 1,409,387</u>

concluded.

See notes to schedule of expenditures of federal awards.

# CITY OF ANN ARBOR, MICHIGAN

## Notes to Schedule of Expenditures of Federal Awards

### 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Ann Arbor, Michigan (the "City") under programs of the federal government for the year ended June 30, 2016. 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 the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

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, 2016, as this entity was separately audited.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

For purposes of charging indirect costs to federal awards, the City has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

### 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 \$2,516,690 for the year ended June 30, 2016) are included in the single audit for the State of Michigan.

### 4. PASS-THROUGH AGENCIES

The City receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDCIS	Michigan Department of Commerce and Industry Services
MDS	Michigan Department of State
MDEQ	Michigan Department of Environmental Quality
MDOT	Michigan Department of Transportation
MSP	Michigan State Police
U of M	University of Michigan
WC	Washtenaw County



**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***

November 4, 2016

To the Honorable Mayor and  
Members of the City Council  
City of Ann Arbor  
Ann Arbor, Michigan

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* (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 4, 2016. 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'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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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'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.





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

November 4, 2016

To the Honorable Mayor and  
Members of the City Council  
City of Ann Arbor  
Ann Arbor, Michigan

**Report on Compliance for the Major Federal Program**

We have audited the compliance of the City of Ann Arbor (the "City") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2016. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Ann Arbor Housing Commission, which received \$17,151,854 in federal awards, and which is not included in the City's schedule of expenditures of federal awards for the year ended June 30, 2016. Our audit, described below, did not include the operations of the Ann Arbor Housing Commission because it arranged for a separate audit in accordance with the Uniform Guidance.

***Management's Responsibility***

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

***Independent Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the City's major federal program 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 requirement 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 the 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

### *Opinion on the Major Federal Program*

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of the City 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's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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'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.

### *Purpose of this Report*

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.

A handwritten signature in black ink that reads "Lehmann Lohman LLC". The signature is written in a cursive, flowing style.

# CITY OF ANN ARBOR, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes       X  no

Significant deficiency(ies) identified? \_\_\_\_\_ 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? \_\_\_\_\_ 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 2 CFR 200.516(a)? \_\_\_\_\_ yes       X  no

Identification of major programs and type of auditors' report issued on compliance for each major program:

#### CFDA Number

66.468

#### Name of Federal Program or Cluster

Capitalization Grants for Drinking Water State Revolving Funds

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

Auditee qualified as low-risk auditee?  X  yes      \_\_\_\_\_ no

# CITY OF ANN ARBOR, MICHIGAN

## ■ Schedule of Findings and Questioned Costs For the Year Ended June 30, 2016

### SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

■ ■ ■ ■ ■

# CITY OF ANN ARBOR, MICHIGAN

## ■ Summary Schedule of Prior Federal Award Audit Findings For the Year Ended June 30, 2016

None reported.

