

City of Ann Arbor

Single Audit

June 30, 2020



Table of Contents

	Page
Single Audit	
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>	1
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	3
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8
Summary Schedule of Prior Audit Findings	10
Corrective Action Plan	11



800.968.0010 | yeoandyeo.com

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, 2020, 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 2, 2020. 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.

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 opinion 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 2020-001 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

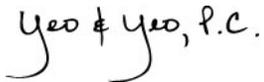
determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Ann Arbor's Response to Findings 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.



Ann Arbor, MI

December 2, 2020



800.968.0010 | yeoandyeo.com

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

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, 2020. 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.

City of Ann Arbor's basic financial statements include the operations of the Ann Arbor Housing Commission, which received \$17,342,146 in federal awards, which is not include in the schedule of expenditures of federal awards during the year ended June 30, 2020. 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, 2020.

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, 2020, 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 2, 2020, 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 2, 2020

City of Ann Arbor
Schedule of Expenditures of Federal Awards
For the Year ended June 30, 2020

	<u>Federal CFDA Number</u>	<u>Federal or Pass - Through Grant Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Agricultural Conservation Easement Program	10.931	54-5D21-15-01JMB	\$ 511,070
<u>U.S. Department of Justice</u>			
Domestic Violence Supplemental Grant	16.590	2016-WE-AX-0031	63,134
<u>U.S. Department of Transportation</u>			
Highway Research Planning and Construction - Dhu Varren Sidewalk Gaps	20.205	SGMA1900 (681)	76,584
Highway Research Planning and Construction - Eisenhower Pky-Plaza Rd RRFB (19-5224)	20.205	HSIP 1900 (661)	25,698
Total Highway Research Planning and Construction Cluster			102,282
Ann Arbor Underage Drinking Enforcement	20.616	AL-19-13	19,917
Total U.S. Department of Transportation			122,199
<u>U.S. Department of Homeland Security</u>			
Passed through the State Department of State Police, Emergency Management Division:			
2019 Emergency Management Performance Grant	97.042	EMC-2019-EP-00004	44,478
Hazard Mitigation-Allen Creek	97.039	P4195.16	2,016,738
Total U.S. Department of Homeland Security			2,061,216
<u>Executive Office of the President</u>			
Passed through MSP, Washtenaw County:			
High Intensity Drug Trafficking Areas Program	95.001	N/A	701
Total Federal Expenditures of Federal Awards			\$ 2,758,320

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, 2020

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, 2020. 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 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, 2020, 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 \$21,329 for the year ended June 30, 2020) are included in the single audit for the State of Michigan.

Note 4 - Reconciliation to the Financial Statements

Federal grants per governmental fund statements	\$ 741,582
Deferred inflows of resources related to federal grants	<u>2,016,738</u>
Total expenditures of federal awards	<u>\$ 2,758,320</u>

Note 5 - Subrecipients

No amounts were provided to subrecipients.

City of Ann Arbor
Schedule of Findings and Questioned Costs
June 30, 2020

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>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
97.039	Hazard Mitigation

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
Schedule of Findings and Questioned Costs
June 30, 2020

Section II – Government Auditing Standards Findings

2020-001 – Material Weakness – Audit Adjustments

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

Condition: Material journal entries were proposed by the auditors to properly account for revenue recognition in relation to revenue that has not been earned or is not yet available. These misstatements were not detected by the City's internal control over financial reporting in a timely manner. These entries proposed by the auditors were considered quantitatively material to the Street, Bridge, and Sidewalk Repair Millage Fund. The first journal entry was for \$2,398,595 to record deferred inflows of resources instead of revenues related to a receivable from Washtenaw County that had not been received within 60 days of year end. The second journal entry was for \$738,589 to record unearned revenue instead of revenues related to a Michigan Department of Transportation overpayment.

Cause: 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.

Effect: Had the journal entries not been recorded, the financial statements would have been materially misstated.

Recommendation: We recommend the City review all outstanding receivables for governmental funds once the 60-day time period subsequent to year end has occurred, and move those revenues into deferred inflows if they are uncollected. The City should take care in recording unexpected receipts, including researching the source in order to record it properly as revenue or unearned revenue.

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, 2020.

City of Ann Arbor
Summary Schedule of Prior Audit Findings
June 30, 2020

Section IV – Prior Audit Findings

Government Auditing Standards Findings

There were no *Government Auditing Standards* findings for the year ended June 30, 2019.

Federal Award Findings

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2019.



CITY OF ANN ARBOR, MICHIGAN

301 E. Huron St., P.O. Box 8647 • Ann Arbor, Michigan 48107-8647

a2gov.org • facebook.com/thecityofannarbor • twitter.com/a2gov

December 2, 2020

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

RE: Audit June 30, 2020

Please note the following corrective action plan relating to the material weakness in the City's audit as of June 30, 2020:

2020-001 – Material Weakness – Audit Adjustments

The corrective action plan is to add to an item to our annual audit checklist to look for any recorded receivables that were not actually received 60 days following year-end. The Chief of Staff of Public Services has been notified of this weakness, ensuring that they are aware of City policies regarding the 60-day rule. The Accounting Services Manager will be the one who will be responsible to ensure that this item is reviewed for future audits when using the audit checklist. This plan has been put in place as of today, December 2, 2020, and will be completed 60 days following year end for all future years.

Thank you for your attention to this matter.

Very Truly Yours,

Karleen Kudej, Accounting Services Manager
City of Ann Arbor