

City of Ann Arbor,  
Michigan



Year Ended  
June 30, 2022

Single Audit Act  
Compliance

**Rehmann**

# CITY OF ANN ARBOR, MICHIGAN

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

March 14, 2023

To the Honorable Mayor and Members of the City Council  
City of 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 21, 2022, 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 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 expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



**CITY OF ANN ARBOR, MICHIGAN**

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2022

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>				
Agricultural Conservation Easement Program	10.931	Direct	555D211901RRL	\$ 264,250
<b>U.S. Department of Housing and Urban Development</b>				
Community Development Block Grants/Entitlement Grants Cluster - Community Development Block Grant 2020	14.218	WC	B-20-UC-26-0006	137,043
<b>U.S. Department of Transportation</b>				
COVID-19 - Airport Improvement Program	20.106	Direct	3-26-SBGP-130-2021	23,000
Highway Planning and Construction Cluster - Highway Research Planning and Construction	20.205	MDOT	20A1(078)	32,080
Highway Safety Cluster - National Priority Safety Programs - Strategic Traffic Enforcement Program - Washtenaw County Seat Belt and Speed Overtime Traffic Enforcement	20.616	WC	-n/a-	7,125
<b>Total U.S. Department of Transportation</b>				<u>62,205</u>
<b>U.S. Department of Treasury</b>				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Direct	-n/a-	423,132
<b>U.S. Environmental Protection Agency</b>				
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act - Clean and Healthy Neighborhoods	66.034	Direct	XA-00E03015	15,470
<b>Office of National Drug Control Policy</b>				
High Intensity Drug Trafficking Areas Program	95.001	WC	-n/a-	2,620
<b>U.S. Department of Homeland Security</b>				
Emergency Management Performance Grants: Emergency Management Performance Grant 2020-2021	97.042	MSP	EMC-2021-EP-00003	39,125
COVID-19 - Emergency Management Performance Grant American Rescue Plan Act 2020-2021	97.042	MSP	EMC-2021-EP-00006	20,391
<b>Total U.S. Department of Homeland Security</b>				<u>59,516</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 964,236</u>

See notes to schedule of expenditures of federal awards.

# CITY OF ANN ARBOR, MICHIGAN

## Notes to Schedule of Expenditures of Federal Awards

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2022. 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 financial statements. 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, 2022, as the entity was separately audited.

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 or other applicable 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.

The City's reporting entity is defined in Note 1 of the City's annual comprehensive financial report.

### 2. 10% DE MINIMIS COST RATE

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. 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
MDOT	Michigan Department of Transportation
MSP	Michigan State Police
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***

March 14, 2023

To the Honorable Mayor and Members of the City Council  
City of 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, Michigan** (the "City"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 14, 2023. 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.

## **Report on 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) 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'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item 2022-001 that we consider to be a material weakness.



## **Report on 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 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 are required to be reported under *Government Auditing Standards*.

## **City of Ann Arbor's Response to the Finding**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City'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 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.

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

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

Month 14, 2023

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

### Report on Compliance for the Major Federal Program

#### *Opinion on the Major Federal Program*

We have audited the compliance of the **City of Ann Arbor, Michigan** (the "City") with the types of compliance requirements identified as subject to audit 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, 2022. 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, a discretely presented component unit, which received \$21,521,727 in federal awards, and which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2022. 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.

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 its major federal program for the year ended June 30, 2022.

#### *Basis for Opinion on the Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Independent Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for its major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.





### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

### ***Independent Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of its major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on 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 Independent Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

### ***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.

*Rehmann Johnson LLC*

# CITY OF ANN ARBOR, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: 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 programs:

Material weakness(es) identified?   yes  X  no

Significant deficiency(ies) identified?   yes  X  none reported

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:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds	Unmodified

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, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

### SECTION II – FINANCIAL STATEMENT FINDINGS

#### 2022-001 – Material Audit Adjustments (Repeat)

**Finding Type.** Material Weakness in Internal Controls over Financial Reporting.

**Criteria.** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

**Condition.** During our audit, we identified and proposed a material adjustment (which was approved and posted by management) to adjust the City's general ledger to the appropriate balances.

**Cause.** This condition was the result of a manual calculation which was not properly reviewed and adjusted in previous periods. Internal controls did not detect all adjustments necessary to properly record year-end balances.

**Effect.** As a result of this condition, the City's accounting records were initially misstated as follows:

- Beginning net position of governmental activities was increased by \$229,021,009 to correct the balance of accumulated depreciation on capital assets miscalculated in prior periods.
- Accumulated depreciation was decreased and depreciation expense was decreased by \$37,163,086 for the effect of correcting the depreciation calculation in the current year.
- Capital assets being depreciated were decreased by \$506,863,772 and non-depreciable assets (land) were increased by the same amount.

**Recommendation.** For the current year, no further action is required as the adjustment has been posted. In future periods, we recommend that management implement updated procedures to ensure that general ledger accounts for accumulated depreciation on infrastructure capital assets are appropriately reconciled and adjusted at year end.

**View of Responsible Officials.** The City agrees with the required adjustment arising from the miscalculation of depreciation on infrastructure capital assets. The calculation error began in fiscal year 2004, so the resulting \$229,021,009 adjustment reflects 19 years of accumulated error corrections. Internal procedures have been updated to ensure proper depreciation calculations on infrastructure in the future, including an analysis of historical data to identify such errors in a timely manner.

**Responsible Official.** Chief Financial Officer

**Anticipated Completion Date:** June 30, 2023

# CITY OF ANN ARBOR, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

### SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

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# CITY OF ANN ARBOR, MICHIGAN

## Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2022

### 2021-001 - Material Audit Adjustments

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. Had the journal entry not been recorded, the financial statements would have been materially misstated for the Parking System Fund. The entries and account balances related to debt service payments were properly accounted for in the current year; however, another adjustment was required which resulted in a repeated finding for material audit adjustments as finding 2022-001.

