

City of Saginaw

Single Audit Report

June 30, 2016

Table of Contents

	<u>Page</u>
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	8
Schedule of Findings and Questioned Costs	10
Schedule of Prior Year Findings and Questioned Costs	13
Corrective Action Plan	14

**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 Saginaw

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 Saginaw as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Saginaw's basic financial statements, and have issued our report thereon dated December 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Saginaw'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 Saginaw's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Saginaw'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 identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001, which we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Saginaw'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*.

The City of Saginaw's Response to Findings and Corrective Action Plan

The City of Saginaw'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 Saginaw'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.

December 2, 2016
Saginaw, Michigan

**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 Saginaw

Report on Compliance for Each Major Federal Program

We have audited the City of Saginaw'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 Saginaw's major federal programs for the year ended June 30, 2016. The City of Saginaw'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 Saginaw'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 Saginaw'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 Saginaw's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Saginaw 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, 2016.

Report on Internal Control over Compliance

Management of the City of Saginaw 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 Saginaw'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 Saginaw'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 Saginaw, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Saginaw's basic financial statements. We issued our

report thereon dated December 2, 2016, 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.

December 2, 2016
Saginaw, Michigan

City of Saginaw
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

	<u>Federal CFDA Number</u>	<u>Federal or Pass-Through Grant Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>	<u>Current Year Cash Transferred To Subrecipients</u>
U.S. Department of Housing and Urban Development					
CDBG Entitlement Grants Cluster					
Community Development Block Grant Entitlement 2014	14.218	B-14-MC-260028	\$ 2,058,758	\$ 650,254	\$ 18,251
Community Development Block Grant Entitlement 2015	14.218	B-15-MC-260028	2,033,500	1,215,244	242,272
Total CDBG Entitlement Grants			<u>4,092,258</u>	<u>1,865,498</u>	<u>260,523</u>
Stewart McKinney Homeless Assistance					
Stewart McKinney Homeless Assistance 2013	14.231	E-13-MC-260028	154,488	23,685	23,685
Stewart McKinney Homeless Assistance 2014	14.231	E-14-MC-260028	173,183	166,873	166,873
Total Stewart McKinney Homeless Assistance			<u>327,671</u>	<u>190,558</u>	<u>190,558</u>
Home Investment Partnerships Program					
City of Saginaw HOME programs 2012	14.239	M-11-MC-260212	624,595	9,569	9,569
City of Saginaw HOME programs 2013	14.239	M-12-MC-260212	370,855	214,254	-
City of Saginaw HOME programs 2014	14.239	M-13-MC-260212	351,178	80,369	57,617
City of Saginaw HOME programs 2015	14.239	M-14-MC-260212	345,628	50,025	39,537
City of Saginaw HOME programs 2016	14.239	M-15-MC-260212	309,647	62,530	29,845
Total Home Investment Partnerships Program			<u>2,001,903</u>	<u>416,747</u>	<u>136,568</u>
EDI Special Projects					
EDI Special Projects	14.251	B-08-SP-MI-0560	656,600	42,415	-
Neighborhood Stabilization Program					
NSP II	14.256	NS2-2009-0387	13,617,179	14,033	-
NSP IV	14.256	NS2-2015-0387-NPI	250,000	142,063	-
Total Neighborhood Stabilization Program			<u>13,867,179</u>	<u>156,096</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>20,945,611</u>	<u>2,671,314</u>	<u>587,649</u>
U.S. Department of the Interior					
FWS National Wildlife Refuge Fund	15.659	2016	782	782	-

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

City of Saginaw
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

	<u>Federal CFDA Number</u>	<u>Federal or Pass-Through Grant Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>	<u>Current Year Cash Transferred To Subrecipients</u>
U.S. Department of Justice					
Passed through International Association of Chiefs of Police Service, Support, and Justice: A Strategy to Enhance Law Enforcement Response to Victim's Technical Assistance	16.582	2014-VF-GX-K011	\$ 300,000	\$ 22,707	\$ -
Bullet Proof Vest Program 2015	16.607	2015	8,750	3,390	-
Passed through the Saginaw Community Foundation Project Safe Neighborhoods	16.609	2014-GP-BX-0005	172,789	92,599	-
Passed through Saginaw County JAG Program Cluster					
Byrne Justice Assistance Grant - JAG Program 2013	16.738	2013-DJ-BX-0221	49,496	30,074	-
Byrne Justice Assistance Grant - JAG Program 2014	16.738	2014-DJ-BX-0512	50,193	50,193	-
Byrne Justice Assistance Grant - JAG Program 2015	16.738	2015-DJ-BX-0892	41,790	38,227	-
Total Byrne Justice Assistance Grant			<u>141,479</u>	<u>118,494</u>	<u>-</u>
Total U.S. Department of Justice			<u>623,018</u>	<u>237,190</u>	<u>-</u>
U.S. Department of Health and Human Services					
Passed through State of Michigan Voting Access for Individuals with Disabilities (VOTE) Program	93.617	2015	3,570	3,570	-
U.S. Department of Homeland Security					
Passed through Iosco County Iosco County Homeland Security Grant	97.067	R3-2014-80.0119	3,271	3,271	-
FEMA SAFER Grant	97.083	EMW-2012-FH-00813	2,317,587	857,036	-
Total U.S. Department of Homeland Security			<u>2,320,858</u>	<u>860,307</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 23,893,839</u>	<u>\$ 3,773,163</u>	<u>\$ 587,649</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

City of Saginaw
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2016

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Saginaw 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 City of Saginaw, it is not intended to and does not present the financial position, changes in net assets, or cash flows of City of Saginaw.

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 Saginaw has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Financial Statements

Grants, donations and contributions per the financial statements	\$ <u>8,351,073</u>
Less:	
State grants	(1,347,482)
Donations and contributions	<u>(3,688,146)</u>
	<u>(5,035,628)</u>
Plus:	
Deferred inflows of resources	398,688
Program income	<u>59,030</u>
	<u>457,718</u>
Total expenditures of federal awards	<u>\$ <u>3,773,163</u></u>

City of Saginaw
Schedule of Findings and Questioned Costs
June 30, 2016

Note 4 - Subrecipients

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Amount</u>
14.218	\$ 260,523
14.231	190,558
14.239	<u>136,568</u>
	<u>\$ 587,649</u>

City of Saginaw
Schedule of Findings and Questioned Costs
June 30, 2016

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? X Yes 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)? X Yes No

City of Saginaw
Schedule of Findings and Questioned Costs
June 30, 2016

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant Entitlements

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

Auditee qualified as low-risk auditee? Yes No

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

Finding 2016-001 Material Weakness

Criteria: Management is responsible for the fair presentation of the financial statements in accordance with generally accepted accounting principles.

Condition: During the current year, the City concluded that the Boat Launch Fund should be a proprietary fund since the majority of its revenues are from user charges. When the Boat Launch Fund was a governmental fund, it was appropriate to exclude capital assets in the fund. As a proprietary fund, capital assets must be included in the fund and resulting net position.

The City did not account for the accounts receivable and related revenue in fiscal year 2016 for final payment of the one-time state appropriation for roads, streets, and bridges in accordance with Numbered Letter 2015-2 issued by the State of Michigan, which is guidance from the State of Michigan on the appropriate accounting for this appropriation.

Material adjustments were required to account for these conditions.

Cause and Effect: The adjustments were posted as a result of audit procedures in order to fairly state the balances. These adjustments had a material effect on the financial statements.

Recommendation: The City should implement procedures to ensure that all appropriate journal entries are made and independently reviewed prior to the start of the audit.

City of Saginaw
Schedule of Findings and Questioned Costs
June 30, 2016

**Views of Responsible
Officials:**

Management agrees that two year-end related adjustments were identified by the auditors and posted by the City during the audit. Both of these entries were one-time, unusual items that occurred at the City this year. A second review of the year-end accruals was not possible for these items and therefore, these journal entries were not identified prior to the start of the audit.

Corrective Action Plan: See attached corrective action plan from management.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings for the year ended June 30, 2016.

City of Saginaw
Schedule of Prior Year Findings and Questioned Costs
June 30, 2016

GOVERNMENT AUDITING STANDARDS FINDINGS

There were no government auditing standards findings for the year ended June 30, 2015.

FEDERAL AWARD FINDINGS

Finding 2015-001 –Advance to Subrecipient (Noncompliance and Material Weakness)

Program information: Community Development Block Grant Entitlements; U.S. Department of Housing and Urban Development; CFDA Number: 14.218; Federal Award Numbers: B-13-MC-260028 and B-14-MC-260028

Criteria: Management is responsible for establishing, maintaining, and monitoring internal controls over compliance as it relates to subrecipient monitoring.

Condition: A subrecipient was provided a cash advance for expenditures and timely support for those expenditures was not received.

Questioned costs: None.

Cause: The City did not have a process in place to verify supporting documentation for advances were received in a timely fashion.

Effect: Timely supporting documentation for the advance was not received. The subrecipient eventually spent approximately half of the funds and returned the unspent funds to the City.

Recommendation: The City should apply a more stringent level of oversight after advances are made to subrecipients to verify supporting documentation is received in a timely manner. We recommend the City terminate relationships with subrecipients that are not in full compliance with grant requirements.

Views of the responsible officials: The City has implemented a new policy and believes this issue has been corrected during the fiscal year.

Current status: RESOLVED.

**City of Saginaw
Corrective Action Plan
June 30, 2016**



City of Saginaw
Corrective Action Plan
June 30, 2016

Finding 2016-001 – Material Weakness

Material adjustments were required to account for the recording of the capital assets in the Boat Launch Fund when it was changed to a Proprietary Fund and for the recording of a one-time state-appropriation for roads, streets, and bridges as a receivable and revenue during the fiscal year.

Corrective Action Plan

The Controller's Office will ensure that the City has a second review of all audit-prepared schedules and journal entries to the extent possible in the future.

A handwritten signature in black ink, appearing to read 'Tim Morales'.

Contact Person Responsible for Corrective Action
Tim Morales, City Manager