

**City of Saginaw**

**Single Audit Report**

**June 30, 2017**



## 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 Plans	14



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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 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, 2017, 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 11, 2017.

#### **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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002, which we consider to be material weaknesses.

### **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 findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plans. The City of Saginaw's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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.*

Saginaw, Michigan  
December 11, 2017



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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 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, 2017. 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, 2017.

### **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, 2017, 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 11, 2017, 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.*

Saginaw, Michigan  
December 11, 2017

**City of Saginaw**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2017**

	<b>Federal CFDA Number</b>	<b>Federal or Pass-Through Grant Number</b>	<b>Award Amount</b>	<b>Federal Expenditures</b>	<b>Current Year Cash Transferred To Subrecipients</b>
<b>U.S. Department of Housing and Urban Development</b>					
CDBG Entitlement Grants Cluster					
Community Development Block Grant Entitlement 2014	14.218	B-14-MC-260028	\$ 2,058,758	\$ 207,018	\$ -
Community Development Block Grant Entitlement 2015	14.218	B-15-MC-260028	2,033,500	655,870	6,965
Community Development Block Grant Entitlement 2016	14.218	B-16-MC-260028	1,987,374	1,143,455	507,232
NSP III	14.218	B-11-MN-26-0017	1,242,318	43,108	-
Total CDBG Entitlement Grants Cluster			<u>7,321,950</u>	<u>2,049,451</u>	<u>514,197</u>
Stewart McKinney Homeless Assistance 2011	14.231	E-11-MC-260028	172,084	2,489	2,489
Stewart McKinney Homeless Assistance 2012	14.231	E-12-MC-260028	196,997	777	777
Stewart McKinney Homeless Assistance 2015	14.231	E-15-MC-260028	183,511	16,637	16,637
Stewart McKinney Homeless Assistance 2016	14.231	E-16-MC-260028	183,056	175,624	175,624
Total Stewart McKinney Homeless Assistance			<u>735,648</u>	<u>195,527</u>	<u>195,527</u>
Home Investment Partnerships Program					
City of Saginaw HOME Programs 2012	14.239	M-12-MC-260212	370,855	19,086	-
City of Saginaw HOME Programs 2013	14.239	M-13-MC-260212	351,178	121,288	48,614
City of Saginaw HOME Programs 2014	14.239	M-14-MC-260212	345,628	96,107	43,487
City of Saginaw HOME Programs 2015	14.239	M-15-MC-260212	309,647	190,735	145,915
City of Saginaw HOME Programs 2016	14.239	M-16-MC-260212	321,812	50,002	17,995
Total Home Investment Partnerships Program			<u>1,699,120</u>	<u>477,218</u>	<u>256,011</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>9,756,718</u>	<u>2,722,196</u>	<u>965,735</u>
<b>U.S. Department of the Interior</b>					
FWS National Wildlife Refuge Fund	15.659	2016	<u>887</u>	<u>887</u>	<u>-</u>

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, 2017**

	<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>
<b>U.S. Department of Justice</b>					
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	\$ 83,097	\$ -
Bullet Proof Vest Program 2016	16.607	2016	8,750	1,413	-
Passed through the Saginaw Community Foundation Project Safe Neighborhoods	16.609	2014-GP-BX-0005	172,789	20,417	-
Passed through Saginaw County JAG Program Cluster					
Byrne Justice Assistance Grant - JAG Program 2015	16.738	2015-DJ-BX-0892	41,790	3,563	-
Byrne Justice Assistance Grant - JAG Program 2016	16.738	2016-H3161-MI-DJ	81,777	40,889	-
Total Byrne Justice Assistance Grant Cluster			<u>123,567</u>	<u>44,452</u>	<u>-</u>
<b>Total U.S. Department of Justice</b>			<u>605,106</u>	<u>149,379</u>	<u>-</u>
<b>U.S. Department of Homeland Security</b>					
FEMA - Flood Disaster Recovery	97.036	FEMA DR-4121-MI	1,278,442	10,488	-
AFG - Fire Ground Survival Grant	97.044	EMW-2015-FO-05056	58,182	58,182	-
FEMA SAFER Grant	97.083	EMW-2012-FH-00813	2,317,587	783,916	-
<b>Total U.S. Department of Homeland Security</b>			<u>3,654,211</u>	<u>852,586</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 14,016,922</u>	<u>\$ 3,725,048</u>	<u>\$ 965,735</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, 2017**

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**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, 2017. 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	\$ 8,478,547
Less:	
State grants	(712,969)
Donations and contributions	(3,202,484)
Decrease in deferred inflows of resources	<u>(892,780)</u>
	(4,808,233)
Plus:	
Program income	<u>54,734</u>
Total expenditures of federal awards	<u>\$ 3,725,048</u>

**City of Saginaw**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2017**

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**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	\$ 514,197
14.231	195,527
14.239	256,011
	<u>\$ 965,735</u>

**City of Saginaw**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**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)?

       Yes   X   No

**City of Saginaw**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant Entitlement Cluster
97.083	Staffing for Adequate Fire and Emergency Response

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 2017-001 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 finished the final transfer of their Pension funds into MERS. As a result, the accounting under GASB 68 for these transactions was unusual. The original trial balance provided did not appropriately account for this transaction and the auditor requested the City to review its calculations.

Material adjustments were required to account for these conditions.

**Cause and Effect:** Adjustments were posted as a result of the auditors' review and City's research in order to fairly state the net pension liability. These adjustments had a material effect on the financial statements, including adjustments of \$30,000,000 to the Sewer Fund, and \$20,000,000 to the Water Fund.

**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, 2017**

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**Views of Responsible Officials:**

The City feels as if they have a review process in place currently over the preparation for the audit and a higher detailed review will be made over unusual items prior to the start of the audit. The City will plan to run the calculation for unusual entries past the auditors for their thoughts prior to recording those entries in the future.

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

**Finding 2017-002 Material Weakness**

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

**Condition:** The City moved the Public Employee Healthcare Trust Fund to be included in the governmental activities.

A prior period adjustment was required to account for this condition.

**Cause and Effect:** As a result of the City's review of GASB 74 implementation, the City became aware that the Public Employee Healthcare Trust Fund was not truly a trust. The City therefore determined it would be appropriate to include this fund in the governmental activities. A prior period adjustment was recorded in the statement of activities to increase the beginning net position of governmental activities by \$1,967,346.

**Recommendation:** We believe the City has corrected this issue and there is no further recommendation.

**Views of Responsible Officials:**

Management agrees that this prior period adjustment to the governmental activities was necessary. The City will continue to review funds to ensure the fair presentation of the financial statements.

**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, 2017.

**City of Saginaw**  
**Schedule of Prior Year Findings and Questioned Costs**  
**June 30, 2017**

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**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 prior 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.

**Current Status:** These issues were corrected.

**FEDERAL AWARD FINDINGS**

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

**City of Saginaw**  
**Corrective Action Plans**  
**June 30, 2017**

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City of Saginaw  
Corrective Action Plan  
June 30, 2017

**Finding 2017-001 – Material Weakness**

Material adjustments were required to fairly state the net pension liability.

**Corrective Action Plan**

The Controller's Office will ensure that necessary reviews are completed prior to the start of the audit. Calculations for any unusual items will be reviewed with the auditors before the audit begins so that proper conclusions can be reached prior to the recording of such entries.

**Finding 2017-002 – Material Weakness**

A prior period adjustment was required to account for the moving of the Public Employee Healthcare Trust Fund into the governmental activities.

**Corrective Action Plan**

This has been corrected. The Controller's Office will continue to review all funds to ensure they are presented fairly.



Contact Person Responsible for Corrective Action  
Tim Morales, City Manager