

**City of Bay City**

**Single Audit Report**

**June 30, 2017**



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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 the City Commission  
City of Bay City

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 Bay City as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Bay City's basic financial statements, and have issued our report thereon dated December 21, 2017.

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

In planning and performing our audit of the financial statements, we considered the City of Bay City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Bay City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Bay 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 were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Bay City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Bay City's Response to the Finding and Corrective Action Plan**

City of Bay City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. City of Bay 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 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 21, 2017  
Saginaw, Michigan



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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 the City Commission  
City of Bay City

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

We have audited the City of Bay City'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 Bay City's major federal programs for the year ended June 30, 2017. The City of Bay City'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 Bay City'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 Bay City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Bay City's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City of Bay City 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 Bay City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Bay City'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 Bay City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Bay City, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Bay City's basic financial statements. We issued our report thereon dated December 21, 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.*

December 21, 2017  
Saginaw, Michigan

**City of Bay City**  
**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>Federal Expenditures</u>	<u>Current Year Cash Transferred To Subrecipients</u>
<b>U.S. Department of Housing and Urban Development</b>				
Community Development Block Grant Cluster				
Grant Entitlements - 2009	14.218	B-09-MC-26-0003	\$ 12,700	\$ -
Grant Entitlements - 2013	14.218	B-13-MC-26-0003	26,019	-
Grant Entitlements - 2014	14.218	B-14-MC-26-0003	133,821	-
Grant Entitlements - 2015	14.218	B-15-MC-26-0003	247,456	162,107
Grant Entitlements - 2016	14.218	B-16-MC-26-0003	559,039	48,019
Grant Entitlements - 2016	14.218	N/A	80,226	31,970
Total Community Development Block Grant Cluster			<u>1,059,261</u>	<u>242,096</u>
Home Investment Partnerships Program				
Home Investment Partnerships Program - 2014	14.239	M-14-MC260219	87,734	87,734
Home Investment Partnerships Program - 2015	14.239	M-15-MC260219	121,342	121,342
Home Investment Partnerships Program - 2016	14.239	M-16-MC260219	52,583	52,584
Total Home Investment Partnerships Program			<u>261,659</u>	<u>261,660</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>1,320,920</u>	<u>503,756</u>
<b>U.S. Department of Justice</b>				
Bulletproof Vest Partnership Program	16.607	2016BUBX16085214	2,380	-
Passed through Bay County				
Edward Byrne Memorial Justice				
Assistance Grant Program	16.738	2016-DJ-BX-0757	8,345	-
<b>Total U.S. Department of Justice</b>			<u>10,725</u>	<u>-</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**City of Bay City**  
**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>Federal Expenditures</u>	<u>Current Year Cash Transferred To Subrecipients</u>
<b>U.S. Department of Homeland Security</b>				
FEMA Assistance to Firefighters Grant Passed through Iosco County	97.044	EMW-2015-FO-05309	\$ 268,212	\$ -
Homeland Security Grant Program - FY15	97.067	EMW-2015-FO-000333	<u>1,062</u>	<u>-</u>
<b>Total U.S. Department of Homeland Security</b>			<u>269,274</u>	<u>-</u>
<b>U.S. Department of Transportation</b>				
Passed through Michigan Department of Transportation				
Airport Improvement Program	20.106	B-26-0010-1815	26,791	-
Airport Improvement Program	20.106	B-26-0010-1713	<u>1,282</u>	<u>-</u>
			<u>28,073</u>	<u>-</u>
Highway Planning and Construction	20.205	STP 1309	5,213	-
Highway Planning and Construction	20.205	TAP 1509(012)	<u>179,512</u>	<u>-</u>
			<u>184,725</u>	<u>-</u>
<b>Total U.S. Department of Transportation</b>			<u>212,798</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,813,717</u>	<u>\$ 503,756</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**City of Bay City**  
**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 Bay City 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 Bay City, it is not intended to and does not present the financial position, changes in net position, or cash flows of City of Bay City.

The City's reporting entity is defined in Note 1 of the City's comprehensive annual financial report. The City's financial statements include the operations of the Bay City Housing Commission, a discretely-presented component unit, which received federal awards that are not included in the Schedule for the year ended June 30, 2017, as this entity was separately audited.

**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 Bay City 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 \$925,056 for the year ended June 30, 2017) are included in the single audit for the State of Michigan.

**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	\$ 242,096
14.239	261,660
	<u>\$ 503,756</u>

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

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**Note 5 - Reconciliation to the Financial Statements**

The following table describes the reconciliation of the financial statements to the expenditures reported on the Schedule of Expenditures of federal awards:

Per financial statements		
Governmental funds federal grants	\$	2,450,963
Proprietary funds federal grants		28,073
Component units federal grants		<u>179,512</u>
		2,658,548
Less MDOT projects		(925,056)
Add program income		<u>80,225</u>
Total expenditures of federal awards	\$	<u><u>1,813,717</u></u>

**City of Bay City**  
**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 Bay City**  
**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 Cluster

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**

**2017-001 – Material Weakness – Audit Adjustment**

Specific Requirement: Financial statements and records should be free of errors that could change the users' overall assessment of the entity's finances.

Condition: During our audit, we identified that the City did not record a portion of the water utility billing receivable due to billing system issues. This issue was not identified by the City and a material adjustment was required to correct the utility billing receivable and utility billing revenue in the Water Fund.

Cause/Effect: An audit adjustment was posted to record the additional water utility billing receivable of \$600,000 and the related revenue in the Water Fund to fairly state these balances. This entry 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 to ensure that all account balances are fairly stated.

Views of responsible officials: Management agrees and is working on implementing a new utility billing system.

Corrective action plan: See attached corrective action plan.

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

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

There were no federal award findings for the year ended June 30, 2017.

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

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**GOVERNMENT AUDITING STANDARDS FINDINGS**

**Finding 2016-001 – Audit Adjustments**

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

**Current Status:** The City has correctly recorded bond refunding activity in the current year.

**FEDERAL AWARD FINDINGS**

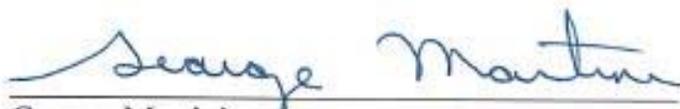
There were no federal award findings for the year ended June 30, 2016



**2017-001** Material Weakness-Audit Adjustment

**Condition:** During our audit, we identified that the City did not record a portion of the water utility billing receivable due to billing system issues. This issue was not identified by the City and a material adjustment was required to correct the utility billing receivable and utility billing revenue in the Water Fund.

**Corrective Action Plan** As part of the fiscal year end closing process, in the future a more thorough reconciliation between the balance per the accounting ledgers and the balance between the customer account balances will be performed. Also, the new utility billing system that is in the final stages of implementation should provide more accurate journal entries of the transactions that occurred in the billing system and more detailed reports available in the new system will help prevent the type of differences that occurred.



George Martini  
Fiscal Services Director