

City of Bay City

Single Audit

June 30, 2019



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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

To the Honorable Mayor and the City Commission
City of Bay City
Bay City, 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 Bay City, as of and for the year ended June 30, 2019, 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 17, 2019. Our report includes a reference to other auditors who audited the financial statements of the Police and Fire Retirement Pension Trust Fund and the Bay City Housing Commission, as described in our report on the City of Bay 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.

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 opinion 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, described in the accompanying schedule of findings and questioned costs as finding number 2019-001.

City of Bay City Response to Finding and Corrective Action Plan

The City of Bay City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Bay City's response was not subject 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.

Saginaw, Michigan
December 17, 2019



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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

To the Honorable Mayor and the City Commission
City of Bay City
Bay City, Michigan

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, 2019. 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.

Auditors' 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, 2019.

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. 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 Bay City, as of and for the year ended June 30, 2019, 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 17, 2019, 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 17, 2019

City of Bay City
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

	Federal CFDA Number	Federal or Pass-Through Grant Number	Federal Expenditures	Cash Transferred To Subrecipients
U.S. Department of Housing and Urban Development				
CDBG Entitlement Grants Cluster				
CDBG Entitlement Grant	14.218	B-13-MC-26-0003	\$ 6,485	\$ -
CDBG Entitlement Grant	14.218	B-14-MC-26-0003	117,280	-
CDBG Entitlement Grant	14.218	B-15-MC-26-0003	27,831	-
CDBG Entitlement Grant	14.218	B-16-MC-26-0003	21,405	53
CDBG Entitlement Grant	14.218	B-17-MC-26-0003	199,797	254,808
CDBG Entitlement Grant	14.218	B-18-MC-26-0003	537,787	4,385
CDBG Entitlement Grant	14.218	N/A	94,997	6,708
Total CDBG Entitlement Grants Cluster			<u>1,005,582</u>	<u>265,954</u>
HOME Investment Partnerships Program	14.239	M-16-MC260219	21	21
HOME Investment Partnerships Program	14.239	M-17-MC260219	7,704	7,704
Total HOME Investment Partnerships Program			<u>7,725</u>	<u>7,725</u>
Total U.S. Department of Housing and Urban Development			<u>1,013,307</u>	<u>273,679</u>
U.S. Department of Justice				
Bulletproof Vest Partnership Program	16.607	2018BUBX18094172	4,437	-
Passed through Bay County				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2017-DJ-BX-0625	8,115	-
Total U.S. Department of Justice			<u>12,552</u>	<u>-</u>
U.S. Department of Transportation				
Passed through Michigan Department of Transportation				
Airport Improvement Program	20.016	B-26-0010-1916	26,999	-
U.S. Department of Homeland Security				
Passed through Iosco County				
Homeland Security Grant Program	97.067	EMW-2016-SS-00010-S01	565	-
Total Expenditures of Federal Awards			<u>\$ 1,053,423</u>	<u>\$ 273,679</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, 2019

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 (the City) under programs of the federal government for the year ended June 30, 2019. 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 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, 2019, 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 the cost principles contained in the Uniform Guidance where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The City 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

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

Federal revenue per the financial statements	
Governmental funds	\$ 931,427
Proprietary funds	26,999
	<hr/>
	958,426
Add program income	94,997
	<hr/>
Total expenditures of federal awards per the Schedule	<u>\$ 1,053,423</u>

City of Bay City
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2019

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	\$ 265,954
14.239	<u>7,725</u>
	<u>\$ 273,679</u>

Note 5 - 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 \$1,124,648 for the year ended June 30, 2019) are included in the single audit for the State of Michigan.

City of Bay City
Schedule of Findings and Questioned Costs
June 30, 2019

Section II – Government Auditing Standards Findings

Finding 2019-001 - Material Noncompliance – Expenditures in Excess of Appropriations

Criteria:	In accordance with MCL 141.421, the City is prohibited from expending funds that are not authorized or approved in their budget.
Condition:	After year-end, several invoices were received for a major street project and bridge repairs that were not taken into consideration when the final budget amendment was completed for the Major Streets Fund.
Cause and Effect:	The recording of these expenditures resulted in a material budget overage in the Major Streets Fund.
Recommendation:	We recommend that expenditures be closely monitored to ensure that they do not exceed the appropriations as specified in the adopted budget for the year, or that the final budget be amended before year-end to reflect large increases in expenditures.
Views of Responsible Officials:	Management agrees with the finding.
Corrective Action Plan:	See attached corrective action plan.

Section III – Federal Award Findings

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

**City of Bay City
Summary Schedule of Prior Audit Findings
June 30, 2019**

Section IV – Prior Audit Findings

Government Auditing Standards Findings

There were no *Government Auditing Standards* findings for the year ended June 30, 2018.

Federal Award Findings

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2018.

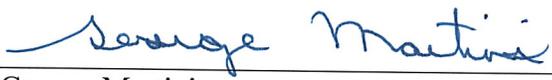


December 17 2019

Yeo & Yeo CPA's
5300 Bay Road, Suite 100
Saginaw, Michigan 48604

RE: Corrective Action Plan For Finding 2019-001 Material Non-Compliance-Expenditures in Excess of Appropriations

- Condition:** After year-end, several invoices were received for a major street project and bridge repairs that were not taken into consideration when the final budget amendment was completed for the Major Streets Fund.
- Cause and Effect** The recording of these expenditures resulted in a material budget overage in the Major Streets Fund.
- Recommendation:** We recommend that expenditures be closely monitored to ensure that they do not exceed the appropriations as specified in the adopted budget for the year, or that the final budget be amended before year-end to reflect large increase in expenditures.
- Corrective Action:** The City will endeavor to gather as much information as is available prior to the final year-end budget adjustments. This will include a letter from the Finance Department to all departments in mid-May requesting up-to-date invoices or estimates of costs incurred or expected to be incurred prior to June 30th on all major projects. The City will also send a letter to the State of Michigan requesting estimates of any unbilled costs on State managed projects which the City is required to record on our financial statements.


George Martini
Fiscal Services Director