

February 27, 2020

Honorable Mayor and Members of the City Commission
City of Alma
525 E. Superior St.
Alma, Michigan 48801

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Alma (the Organization) as of and for the year ended June 30, 2019, and have issued our report dated February 27, 2020. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit.

Our communication includes the following:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Matters for Management's Consideration

Matters for management's consideration are not required to be communicated but we believe are valuable for management.

We discussed these matters with various personnel in the Organization during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

This information is intended solely for the information and use of management, the City Commission, and others within the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Alma, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 6, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in the footnotes of the financial statements. Organization has adopted the following Governmental Accounting Standards Board Statements effective July 1, 2018:

- No. 83, *Certain Asset Retirement Obligations*. The Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset.
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities should be included when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

We noted no transactions entered into by the Organization during the year for which there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Organization's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

The financial statement disclosures are neutral, consistent and clear.

Accounting Standards

The Governmental Accounting Standards Board has released additional Statements. Details regarding these Statements are described in Note 1 of the financial statements.

Difficulties Encountered in Performing the Audit

Management was not adequately prepared for the audit. Many account balance areas had not been properly reconciled, support provided to us to substantiate amounts recorded in the general ledger often contained discrepancies, and management was not timely in following up on our inquiries or requests for additional supporting documentation. As a result of these items, sixteen audit adjustments were required, and management provided an additional twenty-five adjustments after we received the initial trial balance.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial. Management has corrected all such misstatements.

The following material misstatements were detected as a result of our audit procedures and corrected by management:

- An adjustment of \$27,406 was required in the Refuse Disposal Fund to adjust the unbilled utility receivable.
- An adjustment of \$515,975 was required amongst several funds to record receivables that had not been recorded by the City.
- An adjustment of \$30,146 was required in the Refuse Disposal Fund to record payables that had not been recorded by the City.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Grant Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

We applied certain limited procedures to the management's discussion and analysis, municipal employees retirement system schedules, and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Report on Other Supplementary Information

We were engaged to report on other supplementary information as described in the table of contents of the financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II Matters for Management's Consideration

In planning and performing our audit of the financial statements of City of Alma as of and for the year ended June 30, 2019, we considered City of Alma's internal control over financial reporting (internal control) as a basis for designing audit procedures 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of the following matters for management's consideration that are opportunities for strengthening internal controls and improving compliance. This letter does not affect our report dated February 27, 2020, on the financial statements of City of Alma. Our comments and recommendations regarding those matters:

Internal Control Documentation

The City has several accounting policies and procedures in place, however, many of these policies and procedures are not documented. Thus, employees are not fully aware of the details of many of the City's accounting policies and procedures. This creates a higher possibility of inconsistent accounting treatment among transactions, which increases the likelihood of a misstatement of the City's financial statements.

We recommend that the City document all accounting policies and procedures and distribute these documents to all applicable personnel. These policies should be kept and made available for future reference.

Tax Disbursements

The City treasurer prepares a spreadsheet which is provided to the accounts payable clerk to be used in preparing tax disbursements. The information in this spreadsheet is not independently verified by someone other than the treasurer.

We recommend the tax disbursement process be evaluated to ensure the treasurer is effectively utilizing the BS&A program when making tax disbursements. BS&A should be set up properly to allow the treasurer to run reports from that program to determine the tax disbursement amounts so that spreadsheets are not being relied on. The documentation used to initiate the disbursements should be reviewed by someone other than the Treasurer.

Decentralized Cash Collections

The Library receives cash onsite for items such as sold books, photocopies, faxes, DVD rentals, and other miscellaneous items. The Library does not maintain a record keeping system to track the types of items that cash is received for. Without such a record keeping system it is difficult to determine if the proper amount of cash is being receipted by the Library.

We recommend that the Library implement a tracking system of the items that cash is received for and that a person independent of cash receipting review the records of those items to the cash being deposited. This review should be documented by initialing the information reviewed.

Receivable Listings

During our audit of the City's receivable balances, it was noted that several of the receivable accounts have balances in the general ledger that do not match the client's listing. Of these accounts, we noted some receivable account balances that pre-date June 1, 2017.

We recommend that these account balances be evaluated to determine if further adjustments are required. If supporting documentation is not available and the balances cannot be substantiated, then these amounts should be written off as uncollectible.

Deficit Unrestricted Net Position

The City has an accumulated unrestricted net position deficit in the internal service funds in the amount of \$995,216, and the Alma Public Library of \$6,123 as of June 30, 2019.

We recommend that the City evaluate the internal service fund charges to ensure those funds are being properly reimbursed for the services being provided. Additionally, the operations of the Library should be evaluated to ensure funding levels are adequate to support operations.

Municipal Finance Qualifying Statement

Michigan Public Act 34 of 2001 requires municipalities to file an annual qualifying statement. We noted that the City has not filed the qualifying statement.

We recommend that the City review the public act and designate an individual to prepare the qualifying statement to comply with State law, and to help minimize any issues that could arise from the failure to submit the statement should the City decide to issue any new debt.

City of Alma

Single Audit

June 30, 2019



Table of Contents

	Page
Single Audit	
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	7
Schedule of Findings and Questioned Costs	8
Summary Schedule of Prior Audit Findings	14
Corrective Action Plan	18



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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 Alma

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 City of Alma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Alma's basic financial statements, and have issued our report thereon dated February 27, 2020. Our report includes a reference to other auditors who audited the financial statements of the Alma Housing Commission, as described in our report on City of Alma'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 City of Alma'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 City of Alma's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Alma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, 2019-003 and 2019-004 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Alma'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-002 and 2019-004.

City of Alma's Response to Findings and Corrective Action Plan

City of Alma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. City of Alma'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.

Alma, MI
February 27, 2020



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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 Alma

Report on Compliance for Each Major Federal Program

We have audited City of Alma'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 City of Alma's major federal programs for the year ended June 30, 2019. City of Alma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Our report includes a reference to other auditors who audited the financial statements of the Alma Housing Commission, as described in our report on City of Alma'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.

City of Alma's basic financial statements include the operations of the Alma Housing Commission, which received no federal awards during the year ended December 31, 2018. Our audit, described below, did not include the operations of the Alma Housing Commission because the Alma Housing Commission engaged other auditors and an audit in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) was not required based on the lack of federal award contracts.

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 City of Alma'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 City of Alma'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 City of Alma's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Alma 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 City of Alma 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 City of Alma'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 City of Alma'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 City of Alma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Alma's basic financial statements. We issued our report thereon dated February 27, 2020, 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.

Alma, MI
February 27, 2020

City of Alma
Schedule of Expenditures of Federal Awards
June 30, 2019

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Pass Through Identifier	Approved Grant Award Amount	Current Year Expenditures and Revenues Recognized	Current Year Cash Transferred to Subrecipients
U.S. Department of Housing and Urban Development Passed through Michigan Strategic Fund					
Community Development Block Grant	14.228	MSC 214075-EDJT	\$ 822,222	\$ 377,778	\$ 377,778
U.S. Department of Transportation Passed through Michigan Department of Transportation					
Formula Grants for Rural Areas	20.509	2017-0004/P5/R1	126,405	32,976	-
Formula Grants for Rural Areas	20.509	2012-0029/P5/R2	38,500	38,499	-
Formula Grants for Rural Areas	20.509	2012-0029/P6	26,966	26,966	-
Formula Grants for Rural Areas	20.509	2017-0004/P10	130,849	85,364	-
Formula Grants for Rural Areas	20.509	RTAP	4,485	4,485	-
			<u>327,205</u>	<u>188,290</u>	<u>-</u>
Federal Transit Cluster	20.526	2017-0004/P6	<u>236,403</u>	<u>236,396</u>	<u>-</u>
Total U.S. Department of Transportation			<u>563,608</u>	<u>424,686</u>	<u>-</u>
Total			<u>\$ 1,385,830</u>	<u>\$ 802,464</u>	<u>\$ 377,778</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

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

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

City of Alma 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

Operating grants	
Housing improvement fund	\$ 377,778
Transit services fund	188,290
Capital grants	
Transit services fund	<u>236,396</u>
Total federal revenue and expenditures	<u>\$ 802,464</u>

Note 4 - Subrecipients

The City provided federal awards in the amount of \$377,778 to Shiloh Die Cast Midwest, LLC under CFDA 14.228.

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

Section II – Government Auditing Standards Findings

Finding 2019-001, 2018-001, 2017-001, 2016-001, 2015-001 and 2014-001 Material Weakness – Accounting Control Environment and Audit Adjustments

Criteria: Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the recording of all appropriate journal entries, so that the trial balances from which the audited financial statements are prepared, reflect amounts that are in conformity with U.S. generally accepted accounting principles.

Condition: The City provided the auditors with a trial balance that was not properly reconciled. Throughout the audit process the City provided twenty five adjusting journal entries to the auditors to correct amounts in the trial balance. In addition, audit procedures identified errors which required management to record sixteen audit adjusting journal entries. The majority of the City's funds were affected by these adjustments. Material journal entries were required to properly record receivable and payable amounts in several funds. These misstatements were not detected by the City's internal control over financial reporting. Material audit adjustments is a repeat finding and is reflective of the City having a poor overall control environment that contains multiple control deficiencies.

Cause and Effect: The root cause of the City's inability to produce accurate financial statements in a timely manner is not limited to one particular issue, but is caused by a culmination of the following:

- The finance department has lacked, for several years, leadership who has the ability to structure the department in a way that makes appropriate use of employees' skills and City resources. The responsibility for closing the general ledger at year end and posting necessary accruals has historically been placed on the controller. The controller has performed a majority of the work herself instead of relying on others in the department to prepare work for her to review and approve. The controller was employed by the City during the fiscal year, but retired subsequent to fiscal year end. The City hired a finance director/treasurer subsequent to fiscal year end to essentially replace the controller.
- The finance department does not have written policies and procedures to aide employees' in completing their jobs. Finance departments benefit from the use of checklists and templates to ensure that work necessary on a monthly, quarterly and annual basis are being completed by prescribed deadlines.
- Employees within the finance department have not been adequately trained to complete the work required for their positions and to allow them to be part of the reconciliation process.
- Emphasis was not placed on implementing best practices until the new finance director/treasurer was hired.

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

- A general ledger software implementation was completed during the fiscal year, but was not properly planned for or monitored.

Recommendation:

In order to ensure the City Commission and public are provided with accurate financial information in a timelier manner we recommend the following:

- Personnel in positions being supervised by the finance director/treasurer should be responsible for assisting with reconciliations so that the finance director/treasurer can serve as the party responsible for reviewing and approving the work performed.
- The finance department should develop and use checklists to follow on at least a monthly, quarterly and annual basis that include deadlines to ensure all required work is being completed at the appropriate time. Templates for reconciliations should be established that provide instructions along with other additional information for department staff to use.
- An assessment of the knowledge and skill level of each employee in the department should be performed, and appropriate action should take place based on this assessment including, but not limited to, providing additional training, moving employees to other positions or terminating employment.
- As the above recommendations are implemented, the department should consider best practices for each particular area. Department staff may need to shadow or make inquiries of others in similar positions at other municipalities.
- To uphold public trust, deadlines need to be met. Deadlines should be communicated with the appropriate department personnel, and the finance director/treasurer should ensure a plan is in place to meet deadlines while allowing adequate time to review and approve information required to meet said deadlines.

Views of Responsible

Officials:

Management agrees with the finding.

Corrective Action Plan:

See attached corrective action plan from management.

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

Finding 2019-002 Material Weakness and Noncompliance – Bank Reconciliations

- Criteria:** The State of Michigan Department of Treasury *Accounting Procedures Manual for Local Units of Government in Michigan* requires local units to complete bank reconciliations on a monthly basis in a timely manner.
- Condition:** The City was able to begin the reconciliation process for all months, but no month's reconciliation was completed timely during the year. Additionally, at June 30, 2019, there was an unreconciled balance of approximately \$49,000 that has yet to be accounted for.
- Cause and Effect:** The City underwent a general ledger software conversion during the fiscal year. The software conversion was not adequately planned for or monitored. This led to recording issues in the general ledger that increased the complexity of completing the bank reconciliations. Additionally, the City's finance department lacked personnel during the fiscal year who had the ability to complete the bank reconciliations. The City hired an external accounting consultant and a new finance director/treasurer who were charged with completing the bank reconciliations. Because these two individuals were not part of the software conversion, completion of the bank reconciliations proved problematic and required extensive amounts of time to work through. Ultimately they were able to reconcile the year's balances within approximately \$49,000.
- Recommendation:** The City should continue to make adjustments to the general ledger software to ensure transactions are being recorded in a way that allows for timely reconciliation of the bank accounts. Finance department staff members directly involved in recording transaction that affect cash accounts should be adequately trained in their duties to decrease errors on the front end when transactions are initially recorded. Internal deadlines should be established and enforced as to when the bank reconciliations are completed on a monthly basis.
- Views of Responsible Officials:** Management agrees with the finding.
- Corrective Action Plan:** See attached corrective action plan from management.

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

Finding 2019-003, 2018-003, 2017-003 and 2016-002 Material Weakness – Federal Award Written Procedures

- Criteria:** Uniform Grant Guidance requires written procedures covering the following: financial management systems, cash management, payments, allowable costs, period of performance, federal timekeeping, matching or cost sharing, program income, procurement, equipment and real property, supplies, copyrights, subawards to debarred and suspended parties, monitoring and reporting program performance, financial reporting, retention and access requirements for records, and subrecipient monitoring.
- Condition:** The City has not developed the required written procedures. This is a repeat finding.
- Cause and Effect:** Management was initially unaware of the requirement to establish federal written procedures during the June 30, 2016 audit. Subsequently, management has not made development of written procedures a priority.
- Recommendation:** The City should develop and implement the required federal written procedures.
- Views of Responsible Officials:** Management agrees with the finding.
- Corrective Action Plan:** See attached corrective action plan from management.

Finding 2019-004 Material Weakness and Noncompliance – Audit Not Filed Timely

- Criteria:** The State of Michigan Department of Treasury *Accounting Procedures Manual for Local Units of Government in Michigan* requires local units to complete and file an audit annually within six months of the local unit's fiscal year end.
- Condition:** The City filed the annual audit after the required deadline.
- Cause and Effect:** The City underwent a general ledger software conversion during the fiscal year, experienced the retirement of both the controller and the individual appointed to the treasurer position, and hired a new finance director/treasurer subsequent to fiscal year end. As generally occurs when joining a new organization, the new finance director/treasurer had a steep learning curve as she had to not only learn staff and their roles and responsibilities, the City's policies and procedures, but she was also responsible for figuring out software conversion issues, and reconciling fiscal year end information for a fiscal year which she was not present for. Other individuals in the finance department were not able to, mostly due to a lack of previous training, provide additional assistance to the finance director/treasurer beyond their normal duties. These conditions caused significant delays in being able to reconcile fiscal year end information to provide to the auditors.

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

Recommendation: The roles and responsibilities of finance department staff should be evaluated and adjustments made so that reconciliation efforts do not fall on one position. Additional hands on training is likely necessary to allow staff members to succeed with responsibilities that will be new to them. The accounting reconciliation process, both throughout the year and at fiscal year end, should be designed and implemented in a way that allows the City to complete the required annual audit timely.

Views of Responsible Officials: Management agrees with the finding.

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

Section III – Federal Award Findings

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

City of Alma
Summary Schedule of Prior Audit Findings
June 30, 2019

Section IV – Prior Audit Findings

Government Auditing Standards Findings

Finding 2018-001 Material Weakness – Audit Adjustments

**Fiscal year initially
occurred:**

June 30, 2014

Criteria:

Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the recording of all appropriate journal entries, so that the trial balances from which the audited financial statements are prepared, reflect amounts that are in conformity with U.S. generally accepted accounting principles.

Condition:

Material journal entries were proposed by the auditors to properly account for transactions within the Major Streets Fund, Water Utility Fund, and overall business-type activities. In addition, there was a total of twenty-five adjustments proposed that affected several funds. These misstatements were not detected by the City's internal control over financial reporting. Material audit adjustments is a repeat finding and is reflective of the City having a poor overall control environment that contains multiple control deficiencies.

Cause and Effect:

The root cause of the City's inability to produce accurate financial statements in a timely manner is not limited to one particular issue, but is caused by a culmination of the following:

- The finance department has lacked, for several years, leadership who has the ability to structure the department in a way that makes appropriate use of employees' skills and City resources. The responsibility for closing the general ledger at year end and posting necessary accruals has historically been placed on the controller. The controller has performed a majority of the work herself instead of relying on others in the department to prepare work for her to review and approve.
- The finance department does not have written policies and procedures to aide employees' in completing their jobs. Finance departments benefit from the use of checklists and templates to ensure that work necessary on a monthly, quarterly and annual basis are being completed by prescribed deadlines.
- Employees within the finance department lack the skill and knowledge to adequately complete the work required for their position.
- There does not appear to be an emphasis on implementing best practices.

City of Alma
Summary Schedule of Prior Audit Findings
June 30, 2019

- There is little regard for deadlines. Often times reporting type projects will not be completed until the last minute, which can lead to errors and incomplete reporting. Reporting deadlines are not always met. As has been the case for several years, the finance department was not truly prepared for us to begin the audit.
- The finance department scheduled a software implementation for the same time period as the financial statement audit. Software implementations require significant time resources. Finance department personnel were often working on the implementation instead of focusing on completing the audit.

Recommendation:

In order to ensure the City Commission and public are provided with accurate financial information in a timelier manner we recommend the following:

- The number of personnel necessary to run a high functioning finance department, structure of job responsibilities, and the makeup of personnel within the finance department should be evaluated. We believe it is likely that the department is currently overstaffed due to proper lack of structure and knowledge within the department. Personnel in positions being supervised by the controller should be responsible for assisting with reconciliations so that the controller can serve as the party responsible for reviewing and approving the work performed.
- The finance department should develop and use checklists to follow on at least a monthly, quarterly and annual basis that include deadlines to ensure all required work is being completed at the appropriate time. Templates for reconciliations should be established that provide instructions along with other additional information for department staff to use.
- An assessment of the knowledge and skill level of each employee in the department should be performed, and appropriate action should take place based on this assessment including, but not limited to, providing additional training, moving employees to other positions or terminating employment.
- The controller should be provided with time and email management training.
- As the above recommendations are implemented, the department should consider best practices for each particular area. Department staff may need to shadow or make inquiries of others in similar positions at other municipalities. The City may also want to consider hiring a consultant to aide in these implementations.
- To uphold public trust, deadlines need to be met. Deadlines should be communicated with the appropriate department personnel, and the controller should ensure a plan is in place to meet deadlines while allowing adequate time to review and approve information required to meet said deadlines.

Status:

Corrective action was not taken due to turnover within the finance department, see 2019-001.

City of Alma
Summary Schedule of Prior Audit Findings
June 30, 2019

Finding 2018-002 Material Weakness – Prior Period Adjustments

Fiscal year initially occurred:

June 30, 2018

Criteria:

Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the recording of all appropriate journal entries, so that the trial balances from which the audited financial statements are prepared, reflect amounts that are in conformity with U.S. generally accepted accounting principles.

Condition:

City management recorded a prior period adjustment in the Water Utility Fund and the total business-type activities in the amount of \$1,673,277.

Cause and Effect:

Well #2 has been impaired for several years and capital assets should have been reduced for the impairment. This error was caused by lack of communication between the departments of public works and finance. Beginning net position was reduced by \$403,192.

The City had recorded investment in joint venture related to the Gratiot Area Water Authority (GAWA). Upon further examination of executed agreements, the City determined it has no explicit interest in the net position of GAWA. Beginning net position was reduced by \$1,270,085.

Recommendation:

We recommend that departments be educated on the general rules of asset capitalization to ensure they have some familiarity with when assets should be capitalized when they should be recorded as impaired or disposed. We further recommend that when a joint venture is entered into that all applicable executed agreements related to the joint venture be provided to the finance department for further analysis to determine when it's appropriate to record an investment in joint venture.

Status:

Fully corrected.

City of Alma
Summary Schedule of Prior Audit Findings
June 30, 2019

Finding 2018-003 Significant Deficiency – Written Procedures

Fiscal year initially occurred:

June 30, 2016

Criteria:

Uniform Grant Guidance requires written procedures covering the following: financial management systems, cash management, payments, allowable costs, period of performance, federal timekeeping, matching or cost sharing, program income, procurement, equipment and real property, supplies, copyrights, subawards to debarred and suspended parties, monitoring and reporting program performance, financial reporting, retention and access requirements for records, and subrecipient monitoring.

Condition:

The City has not developed the required written procedures. This is a repeat finding.

Cause and Effect:

Management was initially unaware of the requirement to establish federal written procedures during the June 30, 2016 audit. Subsequently, management has not made development of written procedures a priority.

Recommendation:

The City should develop and implement the required federal written procedures.

Status:

Corrective action was not taken due to turnover within the finance department, see 2019-003.

Federal Award Findings

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

CITY OF ALMA, MICHIGAN

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While compiling and preparing the annual audit for the City of Alma, the auditors identified certain deficiencies. The City is aware of these findings and is taking the following steps to address these issues and correct them.

FINDING REFERENCE NUMBER:

2019-001

Material Weakness – Accounting Control Environment and Audit Adjustments

CONTACT PERSON

Kathrine Phillips, Finance Director / Treasurer

ANTICIPATED COMPLETION DATE:

Anticipated Completion Date: May 2020

MANAGEMENT VIEW AND CORRECTIVE ACTION PLAN

The Finance Director has changed the priorities of the Finance Clerk to focus on monthly accounting functions, review and reconciliations. The newly hired Human Resources Manager will take over most of the payroll and all the Human Resources Duties. The Utility Billing Clerk has been assigned to assist the Human Resources Manager in auditing personnel files, filing, updating records and cross training on the Payroll and Human Resources modules. The addition of an accountant in the spring of 2020 will allow the Finance Director more time to focus on year end closeout, audit preparation and monthly reconciliations.

In order to correctly record transactions in the City's accounting system there must be a strong system of internal controls and management review. The City has struggled in the past with staff that could have benefited greatly by guidance and training. The City is addressing these weaknesses by developing best practice policy and procedure to ensure transactions are posted properly and entries are reviewed to avoid adjusting entries later.

Additional staff is anticipated to come on board in the Spring of 2020 to assist in comprehending and correctly processing transactions.

Training will be provided to existing staff to make sure they understand and abide by new policies and procedures. Staff in other departments will be trained on new procedures and there will be an emphasis on compliance to written procedures.

FINDING REFERENCE NUMBER:

2019-002

Material Weakness and Noncompliance – Bank Reconciliations

CONTACT PERSON

Kathrine Phillips, Finance Director / Treasurer

**City of Alma
Corrective Action Plan
June 30, 2019**

ANTICIPATED COMPLETION DATE:

Anticipated Completion Date: June 2020

MANAGEMENT VIEW AND CORRECTIVE ACTION PLAN

The City has begun implementing controls to ensure the accuracy and completeness of bank reconciliations. The accounting software, BS&A, used by the City has a bank reconciliation component and that process has been implemented and not solely completed on a separate spreadsheet outside of BS&A.

In order to properly segregate duties within the Finance Department, someone other than the person completing the bank reconciliation will retrieve the bank statements online and save them to the banking folder on the finance drive.

A person who is not involved in the recording or custody of cash transactions will complete the reconciliations and sign and date each one.

Upper management will receive a bank reconciliation packet for each account that includes the bank statement, the reconciliation report from BS&A and a deposits report from cash receipting. The packets will be reviewed, and approval will be signified with a signature and date.

To accomplish proper segregation of duties, the City will be hiring an accountant with a degree in an accounting to assist the Finance Director in these duties.

FINDING REFERENCE NUMBER:

2019-003

Material Weakness and Noncompliance – Federal Award Written Procedures

CONTACT PERSON

Kathrine Phillips, Finance Director / Treasurer

ANTICIPATED COMPLETION DATE:

Anticipated Completion Date: June 2020

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

The City is currently developing policy and procedure for all Federal, State and County grants. The finance department will be a repository for all grant related information. The Finance Director will be head of Grant Administration and attend training for various grant programs to establish procedures to ensure compliance with the terms of the grant. Training will be provided through multiple sources to individual departments that are recipients of grants to make sure reporting and compliance objectives are met.

**City of Alma
Corrective Action Plan
June 30, 2019**

FINDING REFERENCE NUMBER:

2019-004

Material Weakness and Noncompliance – Audit Not Filed Timely

CONTACT PERSON

Kathrine Phillips, Finance Director / Treasurer

ANTICIPATED COMPLETION DATE:

Anticipated Completion Date: December 2020

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

The City is currently putting procedures in place as described in the previous corrective action plans for the above findings that will address the timely filing of the audit report as well.

Best Regards

Kathrine Phillips, MBA

Finance Director/Treasurer
City of Alma