

**CITY OF MARSHALL,  
MICHIGAN**

**SINGLE AUDIT**

**For the Year Ended June 30, 2010**

**CITY OF MARSHALL, MICHIGAN  
SINGLE AUDIT**

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**YEAR ENDED JUNE 30, 2010**

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**City of Marshall**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2010**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>		
Direct program -		
Supportive Housing Program -		
Section 8 Housing Assistance	14.195	\$ 261,061
Pass-through City of Battle Creek -		
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.804	<u>11,389</u>
Total U.S. Department of Housing and Urban Development		<u>272,450</u>
<b>U.S. Department of Transportation</b>		
Pass-through Michigan Department of Transportation -		
Formula Grants For Other Than Urbanized Areas:		
DART-Section 5311 Operating	20.509	160,993
DART-Section 5309 Capital Investment	20.500	<u>85,120</u>
Total U.S. Department of Transportation		<u>246,113</u>
<b>U.S. Department of Energy</b>		
Pass-through Michigan Department of Energy, Labor		
and Economic Growth -		
Energy Efficiency & Conservation Block Grant Program	81.128	<u>41,062</u>
<b>Total expenditures of federal awards</b>		<b><u>\$ 559,625</u></b>

# CITY OF MARSHALL, MICHIGAN

## Notes To Schedule Of Expenditures Of Federal Awards

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### 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the City of Marshall, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Marshall reporting entity is defined in Note I of the City's basic financial statements.

### 2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note I of the City's basic financial statements.

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**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**

November 30, 2010

To the City Council of  
the City of Marshall  
Marshall, Michigan

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 Marshall, as of and for the year ended June 30, 2010, which collectively comprise the City's financial statements, and have issued our report thereon dated November 30, 2010. We conducted our audit in accordance with 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2010-1 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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*.

In addition, we noted certain matters that we reported to management of the City in a separate letter dated November 30, 2010.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson". The signature is written in a cursive, flowing style.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

November 30, 2010

To the City Council of  
the City of Marshall  
Marshall, Michigan

**Compliance**

We have audited the compliance of the City of Marshall with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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'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. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Marshall complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-2 and 2010-3.

## **Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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'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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance, which we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-2 and 2010-3. 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.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





**INDEPENDENT AUDITORS' REPORT ON  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

November 30, 2010

To the City Council of  
the City of Marshall  
Marshall, Michigan

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 Marshall, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 30, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**CITY OF MARSHALL, MICHIGAN**

**Schedule of Findings and Questioned Costs**

**For the Year Ended June 30, 2010**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes   no

Significant deficiency(ies) identified   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  X  yes   none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?  X  yes   no

**CITY OF MARSHALL, MICHIGAN**

**Schedule of Findings and Questioned Costs (Continued)**

**For the Year Ended June 30, 2010**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)**

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.195	Section 8 Housing Assistance
20.509	DART - Section 5311 Operating

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?        yes   X   no

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Material Weakness**

**2010-1 Bank Reconciliations**

*Criteria.* Bank reconciliations should be completed for all bank accounts on a timely basis following the end of each month; unexplained variances should be immediately investigated and resolved.

*Condition.* During the audit, we noted that the City was not reconciling all of its accounts following the end of each month and that the pooled account (i.e., the primary account from which disbursements are made) had an unreconciled variance of approximately \$60,000 at year-end (the balance per the bank was higher than the books); the unreconciled amount had varied throughout the fiscal year. For the three months subsequent to June 2010, the City was able to isolate the variance to a constant amount, providing the necessary assurance to adjust the books as of June 30, 2010 for the previously unreconciled variance.

*Cause.* The City did not devote the necessary resources to investigate and resolve the unreconciled variance until the audit started and this became an issue.

*Effect.* The City's controls over cash are potentially compromised without timely and complete bank reconciliations.

# CITY OF MARSHALL, MICHIGAN

## Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2010

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### SECTION II – FINANCIAL STATEMENT FINDINGS (Concluded)

*Recommendation.* We recommend that the City implement a policy requiring all bank statements to be reconciled monthly. These reconciliations should document who prepared and who reviewed the reconciliations through initials or a signature in a timely manner with no unreconciled variances. It was noted that this variance was corrected three months subsequent to year-end when the City was able to isolate the variance.

*View of Responsible Officials.*

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### **2010-2 Suspension and Debarment - Verification of Vendors; Noncompliance; Significant Deficiency in Internal Control over Compliance**

Programs – CFDA # 20.509 - Nonurbanized Area Formula Program

*Criteria.* Federal regulations provide that grant recipients are prohibited from contracting with or making subawards under covered transactions with parties that are suspended or debarred, or whose principals are suspended or debarred. *Covered transactions* include contracts for goods and services that are expected to equal or exceed \$25,000.

*Condition.* The City currently does not have procedures in place to ensure that it does not contract with suspended or debarred parties; during the audit we did verify (through *ELPS.gov*) that the applicable vendors were not suspended or debarred.

*Cause.* Those responsible for administering the City's programs were unaware of this requirement.

*Effect.* The City could not substantiate that it had contracted with entities that were not debarred or suspended.

*Recommendation.* We recommend that the City implement procedures to verify that potential vendors, contracting for amounts greater than \$25,000, are neither suspended nor debarred.

*View of Responsible Officials.*

# CITY OF MARSHALL, MICHIGAN

## Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2010

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### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concluded)

#### 2010-3 Eligibility - Documentation Noncompliance; Significant Deficiency in Internal Control over Compliance

Programs – CFDA # 14.195 - Section 8 Housing

*Criteria.* Federal regulations provide that recipients are required to maintain documentation in a resident's file that verify the eligibility of applicants by: (a) obtaining a signed application that contains the information needed to determine eligibility, income, rent, and order of selection; (b) conducting verifications of family income and other pertinent information through third parties; (c) documenting inspections and tenant certifications, as appropriate; and (d) determining that tenant income did not exceed the maximum limit set by HUD. Recipients are also required to re-examine family income and composition at least once every 12 months and adjust the total rent and housing assistance payments, as necessary.

*Condition.* Of the 37 files selected for testing, we noted that three of these files did not contain inspections of tenant certifications.

*Cause.* Although the City has procedures for maintaining proper documentation for resident files there is no single person charged with the duty to ensure that the City complies with federal requirements.

*Effect.* The City lacks the appropriate internal controls to ensure that required documentation is maintained in each residents file and that it is complying with federal regulations.

*Recommendation.* We recommend that the City review take measures are taken to ensure that required documentation is obtained, validated and kept in resident files.

*View of Responsible Officials.*

### SECTION IV – PRIOR YEAR FINDINGS

None.

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