

City of Marshall, Michigan

For the Year
Ended June 30,
2012

Single Audit Act
Compliance

CITY OF MARSHALL, MICHIGAN

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INDEPENDENT AUDITORS' REPORT ON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 13, 2012

The Honorable Mayor and
Members of the City Council
City of Marshall, Michigan

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Marshall, Michigan*, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 13, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Marshall, Michigan's basic financial statements. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 basic 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Rehmann Robson".

CITY OF MARSHALL, MICHIGAN

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through Grantor Number	Current Year Expenditures
U.S. Department of Housing and Urban Development Section 8 Housing Assistance Payments Program	14.195	Direct	n/a	\$ 196,261
U.S. Department of Justice ARRA - Edward Byrne Memorial Justice Assistance Grant	16.803	MSP	n/a	37,440
U.S. Department of Transportation ARRA - Highway Planning and Construction - National Scenic Byways Program	20.205	MDOT	n/a	237,939
ARRA - Federal Transit - Capital Investment Grants	20.500	MDOT	n/a	65,281
Formula Grants for Other Than Urbanized Areas	20.509	MDOT	n/a	48,213
Total U.S. Department of Transportation				351,433
Total expenditures of federal awards				\$ 585,134

See notes to schedule of expenditures of federal awards.

CITY OF MARSHALL, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Marshall, Michigan (the "City") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 assets or cash flows of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

3. PASS-THROUGH AGENCIES

The City receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through	Pass-through Agency Name
MSP	Michigan State Police
MDOT	Michigan Department of Transportation

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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***

December 13, 2012

The Honorable Mayor and
Members of the City Council
City of Marshall
Calhoun County, 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, Michigan* (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City, and have issued our report thereon dated December 13, 2012. 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

Management of the City of Marshall, Michigan is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We noted certain matters that we reported to management of the City in a separate letter dated December 13, 2012.

This report is intended solely for the information and use of management, the City Council, others within the organization, and 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, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 13, 2012

The Honorable Mayor and
Members of the City Council
City of Marshall
Calhoun County, Michigan

Compliance

We have audited the *City of Marshall, Michigan's* (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' 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.

As described in item 2012-SA-1 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding eligibility that are applicable to its Section 8 Housing Assistance Grant. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2012. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-SA-2.

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 to determine the 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-SA-1 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-SA-2 to be a significant deficiency.

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 the responses.

This report is intended solely for the information and use of management, City Council, others within the organization, and 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, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X 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? X yes _____ no

Significant deficiency(ies) identified? X yes _____ none reported

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

Section 8 Housing Assistance Qualified

National Scenic Byways Program Unqualified

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

Identification of major programs:

CFDA Number

14.195
20.205

Name of Federal Program or Cluster

Section 8 Housing Assistance
National Scenic Byways Program

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

Auditee qualified as low-risk auditee? _____ yes X no

CITY OF MARSHALL, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-1 Eligibility - Documentation

Finding Type. Material Noncompliance/Material Weakness in Internal Control over Compliance (Eligibility).

Program. Section 8 Housing Assistance; U.S. Department of Housing and Urban Development; CFDA Number 14.195.

Criteria. Federal regulations provide that recipients are required to select participants from a waiting list in accordance with admission policies per an administrative plan and maintain documentation that, at the time of admission, the family actually met the preference criteria that determined the family's place on the waiting list.

Condition. Of the 20 files selected for testing, we noted that nine did not contain documentation of the tenants' placement on the waiting list at the time of admission.

Cause. The Marshall House has had recent turnover and the support that could not be provided was from files that were started prior to (and, in some cases, many years before) the current Director's tenure.

Effect. The City could not substantiate that it had chosen tenants that were properly placed on the waiting list.

Questioned Costs. None.

Recommendation. The City has implemented a new process as of January 2011 in which the waitlist is tracked on software and can easily provide a print out that proves the tenants place on the waitlist and the City is then able to include the support in the tenant's file, which was observed in the newer files chosen for testing.

View of Responsible Officials. The City implemented a process in 2010 to include the waitlist documentation supporting this requirement in the tenant files. The City was unable to provide the supporting documentation in the tenant's older files. The auditors reviewed current tenant files and observed the required documentation; therefore, the City was in compliance for the 2012 single audit year and does not feel any new procedural changes can be implemented, as a result. The City questions if the finding is warranted for reporting purposes, as it has the potential for resurfacing as a finding in every Single Audit report going forward.

CITY OF MARSHALL, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-2 Suspension and Debarment- Verification of Vendors

Finding Type. Immaterial Noncompliance/Significant Deficiency in Internal Control over Compliance (Procurement, Suspension and Debarment).

Program. National Scenic Byways Program; U.S. Department of Transportation; CFDA Number 20.205.

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.

Questioned Costs. None.

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. The City will implement a verification procedure in the bidding process to verify that potential vendors are not suspended or debarred for contractor services greater than \$25,000.

CITY OF MARSHALL, MICHIGAN

■ Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2012

None.

