

City of St. Clair Shores

Single Audit Report

June 30, 2017



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Honorable Mayor and Members of City Council
City of St. Clair Shores

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Clair Shores as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of St. Clair Shores' basic financial statements, and have issued our report thereon dated November 21, 2017

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of St. Clair Shores' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of St. Clair Shores' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of St. Clair Shores' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeo & Yeo, P.C.

Saginaw, Michigan
November 21, 2017



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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 City Council
City of St. Clair Shores

Report on Compliance for Each Major Federal Program

We have audited the City of St. Clair Shores' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of St. Clair Shores' major federal programs for the year ended June 30, 2017. The City of St. Clair Shores' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of St. Clair Shores' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of St. Clair Shores' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City of St. Clair Shores complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the City of St. Clair Shores is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of St. Clair Shores' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of St. Clair Shores' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Clair Shores, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of St. Clair Shores' basic financial statements. We issued our report thereon dated November 21, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
November 21, 2017

City of St. Clair Shores
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Agency Pass-through Agency Program Title	Federal CFDA Number	Federal or Pass-Through Grant Number	Award Amount	Federal Expenditures	Current Year Cash Transferred to Subrecipients
U.S. Department of Housing and Urban Development					
Community Development Block Grant Program	14.218	B-14-MC-26-0013	\$ 821,617	\$ 31,969	\$ -
Community Development Block Grant Program	14.218	B-15-MC-26-0013	809,978	231,050	-
Community Development Block Grant Program	14.218	B-16-MC-26-0013	806,988	670,460	121,819
				<u>933,479</u>	<u>121,819</u>
U.S. Department of Justice					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-087	10,199	10,199	-
Equitable Sharing Program	16.922	MI5072200	101,777	101,777	-
Total U.S. Department of Justice				<u>111,976</u>	<u>-</u>
U.S. Department of Treasury					
Equitable Sharing Program	21.016	15-6400-5-5-123	24,354	24,354	-
U.S. Environmental Protection Agency					
Great Lakes Restoration Initiative	66.469	1305HDX054-1314	250,000	12,158	-
U.S. Department of Homeland Security					
Passed through Macomb County					
Homeland Security Grant Program	97.067	EMW-2014-SS-00059	12,258	3,769	-
Homeland Security Grant Program	97.067	EMW-2015-SS-00033	8,543	8,543	-
Homeland Security Grant Program	97.067	R2-2015-81	3,193	3,193	-
Total U.S. Department of Homeland Security				<u>15,505</u>	<u>-</u>
Total federal awards				<u>\$ 1,097,472</u>	<u>\$ 121,819</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

City of St. Clair Shores
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of St. Clair Shores under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of St. Clair Shores, it is not intended to and does not present the financial position, changes in fund balance or net position, or cash flows of the City of St. Clair Shores.

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance or OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The City of St. Clair Shores 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

Federal revenue per the financial statements	
Governmental funds	\$ 1,505,347
Enterprise funds	12,158
	1,517,505
Less:	
Revenue received under the equitable sharing program*	(235,665)
Deferred inflows of resources - prior year	(378,896)
Difference in timing of when program income is received and spent**	434
	(614,127)
Add:	
Expenditures incurred under the equitable sharing program*	126,131
Deferred inflows of resources - current year	67,963
	194,094
Total expenditures of federal awards	\$ 1,097,472

City of St. Clair Shores
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017

* Under the equitable sharing program, policing agencies seize assets which are pooled, and then allocated to participating agencies. Participating agencies are allowed to carryover balances of the funds allocated to them from year to year as expenditures will not always equal the amounts received for any given year.

** Program income received which is related to the Community Development Block Grant is recorded as federal revenue. The program income is required to be spent on allowable as identified by the grant. The program income received in some years exceeds the amount spent, and is carried over into the next fiscal year.

Note 4 - Subrecipients

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients under CFDA 14.218 in the amount of \$121,819.

Note 5 - Loan Guarantee Assistance

The U.S. Department of Housing and Urban Development awarded assistance to the City as described in application B-14-MC-26-0013 for the Senior Activity Center project. Such assistance is to consist of the guarantee of notes or other obligations in the principal amount of \$1,760,000, plus interest thereon. The City began the Senior Activity Center project during the fiscal year ending June 30, 2017, with completion expected to occur during the following fiscal year. Once the project is complete the City will make one draw request for the funding. Expenditures related to the project will be considered federal expenditures once the final paperwork has been completed and the funds drawn.

City of St. Clair Shores
Schedule of Findings and Questioned Costs
June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:

Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?

___ Yes X No

• Significant deficiency(ies) identified that are not considered to be material weakness(es)?

___ Yes X None reported

Noncompliance material to financial statements noted?

___ Yes X No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?

___ Yes X No

• Significant deficiency(ies) identified that are not considered to be material weakness(es)?

___ Yes X None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)?

___ Yes X No

City of St. Clair Shores
Schedule of Findings and Questioned Costs
June 30, 2017

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant Entitlements
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

There were no *Government Auditing Standards* findings for the year ending June 30, 2017.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

City of St. Clair Shores
Schedule of Prior Year Findings and Questioned Costs
June 30, 2017

GOVERNMENT AUDITING STANDARDS FINDINGS

Finding 2016-001 and 2015-001 Material Weakness

Criteria: Management is responsible for the fair presentation of the financial statements in accordance with generally accepted accounting principles.

Status: Fully corrected.

Finding 2016-002 Significant Deficiency

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.

Status: Fully corrected.

FEDERAL AWARD FINDINGS

Finding 2016-003 and 2015-003 – Material Weakness and Noncompliance - Procurement

Criteria: Uniform Grant Guidance requires organizations to verify that vendors who are awarded contracts in excess of \$25,000 are not debarred, suspended, or otherwise excluded via the website SAM.gov.

Status: Fully corrected.