

City of Ann Arbor,
Michigan



Year Ended
June 30, 2024

Single Audit Act
Compliance

Rehmann

CITY OF ANN ARBOR, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

December 18, 2024

To the Honorable Mayor and Members of the City Council
City of Ann Arbor, 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 Ann Arbor, Michigan** (the "City"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 18, 2024, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



CITY OF ANN ARBOR, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number	Total Subawards	Federal Expenditures
U.S. Department of Housing and Urban Development					
Economic Development Initiative, Community Project Funding, and Miscellaneous Grants					
Funding Grant 2022	14.251	Direct	B-22-CP-MI-0457	\$ 570,061	\$ 570,061
Funding Grant 2023	14.251	Direct	B-23-CP-MI-0803	-	106,534
Total Economic Development Initiative, Community Project Funding, and Miscellaneous Grants				<u>570,061</u>	<u>676,595</u>
U.S. Department of Justice					
Edward Byrne Memorial Justice Assistance Grant Program - 2022	16.738	Direct	15PBJA-22-GG-02656-JAGX	-	13,630
U.S. Department of Transportation					
Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act:					
Federal Aviation Administration Airport Improvement Program	20.106	MDOT	3-26-SBGP-112-2020	-	39,126
Airport Rescue State Block Grant	20.106	MDOT	3-26-SBGP-132-2022	-	59,000
Total Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act				-	98,126
Highway Research and Development Program - Smart Intersections	20.200	UM	693JJ32150006	-	29,400
Highway Planning and Construction - Public Law 112	20.205	SEMCOG	CPG24-24314	-	36,833
Safe Streets and Roads for All	20.939	Direct	693JJ32440046	-	1,611
Total U.S. Department of Transportation				<u>-</u>	<u>165,970</u>
U.S. Department of Treasury					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	Direct	SLFRP1092	2,005,194	8,131,443
U.S. Department of Energy					
State Energy Program - Community Energy Management	81.041	EGLE	DE-EE0010036	-	56,000
Renewable Energy Research and Development - District Geothermal Design and Deployment	81.087	Direct	DE-EE0010665	255,184	255,184
Energy Efficiency and Conservation Block Grant Program	81.128	Direct	DE-SE0000012	-	2,317
Total U.S. Department of Energy				<u>255,184</u>	<u>313,501</u>
Corporation for National and Community Service					
AmeriCorp State and National 94.006 - 2023	94.006	MCSC / MDLEO	21ACCMIO01	-	125,267
Office of National Drug Control Policy					
High Intensity Drug Trafficking Areas Program	95.001	MSP	-n/a-	-	2,792
U.S. Department of Homeland Security					
Hazard Mitigation Grant	97.039	MSP	DR-4607-MI	-	1,710
Emergency Management Performance Grants:					
Emergency Management Performance Grant 2023	97.042	MSP	EMC-2022-EP-00005	-	27,411
COVID-19 - Emergency Management Performance Grant	97.042	MSP	EMC-2022-EP-00006	-	11,332
Total Emergency Management Performance Grants				<u>-</u>	<u>38,743</u>
Total U.S. Department of Homeland Security				<u>-</u>	<u>40,453</u>
Total Expenditures of Federal Awards				<u>\$ 2,830,439</u>	<u>\$ 9,469,651</u>

See notes to schedule of expenditures of federal awards.

CITY OF ANN ARBOR, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the *City of Ann Arbor, Michigan* (the "City") under programs of the federal government for the year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

The City's reporting entity is defined in Note 1 of the City's financial statements. The City's financial statements include the operations of the Ann Arbor Housing Commission, a discretely presented component unit, which received federal awards that are not included in the Schedule for the year ended June 30, 2024, as the entity was separately audited.

Expenditures reported on the Schedule are reported on the 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 the Uniform Guidance or other applicable guidance, 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.

2. 10% DE MINIMIS COST RATE

For purposes of charging indirect costs to federal awards, the City has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

The City receives certain federal grants 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 Agency Abbreviation	Pass-through Agency Name
EGLE	Michigan Department of Environment, Great Lakes, and Energy
MCSC	Michigan Civil Service Commission
MDLEO	Michigan Department of Labor and Economic Opportunity
MDOT	Michigan Department of Transportation
MSP	Michigan State Police
SEMCOG	Southeast Michigan Council of Governments
UM	University of Michigan



**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 18, 2024

To the Honorable Mayor and Members of the City Council
City of Ann Arbor, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Ann Arbor, Michigan** (the "City"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 18, 2024. Our report includes a reference to other auditors who audited the financial statements of the Ann Arbor Housing Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2024-001 that we consider to be a significant deficiency.



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

City of Ann Arbor's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The City'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 City'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.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

December 18, 2024

To the Honorable Mayor and Members of the City Council
City of Ann Arbor, Michigan

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the compliance of the **City of Ann Arbor, Michigan** (the "City") with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2024. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2024.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Independent Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for its major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Other Matter – Federal Expenditures Not Included in the Compliance Audit

The City's basic financial statements include the operations of the Ann Arbor Housing Commission, a discretely presented component unit, which expended \$28,942,076 in federal awards which is not included in the schedule of expenditures of federal awards for the year ended June 30, 2024. Our compliance audit, described in the "Opinion on the Major Federal Program," does not include the operations of the Ann Arbor Housing Commission because it engaged other auditors to perform an audit of compliance.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Independent Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2024-002. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Independent Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance 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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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.

A handwritten signature in black ink that reads "Rehmann Lohorn LLC". The signature is written in a cursive style with a large initial 'R' and 'L'. The text is centered on the page.

CITY OF ANN ARBOR, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? X yes 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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major programs and type of auditors' report issued on compliance for each major program:

Assistance Listing

<u>Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes X no

CITY OF ANN ARBOR, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

SECTION II – FINANCIAL STATEMENT FINDINGS

2024-001 – Bank Reconciliations

Finding Type. Significant Deficiency in Internal Controls over Financial Reporting

Criteria. Timely completion and review of bank reconciliations is an essential internal control to ensure the accuracy and completeness of the City's accounting records.

Condition. During our review of cash and our understanding of internal control procedures we noted that the City's general fund and payroll accounts were not completed timely (within 60 days of month-end).

Cause. The City's limited staffing resources were strained during fiscal year 2024, causing delays in the preparation of bank reconciliations.

Effect. As a result of this condition, the City is exposed to increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management on a timely basis.

Recommendation. We recommend the City ensures that all bank reconciliations are completed and independently reviewed on a timely basis.

View of Responsible Officials. Management concurs. Tasks in the accounting area have been reorganized to ensure timely preparation and review of bank reconciliations in the future. Bank reconciliation duties have been split between two accounting staff who are cross trained to cover unforeseen absences and workload fluctuations.

Responsible Official. Marti Praschan, Chief Financial Officer

Estimated Completion Date. June 30, 2025

CITY OF ANN ARBOR, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2024-002 – Suspension and Debarment – Verification

Finding Type. Immaterial Noncompliance; Significant Deficiency in Internal Controls over Compliance.

Federal program(s)

U.S. Department of Treasury -

- COVID-19 - Coronavirus State and Local Fiscal Recovery Funds (ALN 21.027).

Criteria. Under the requirements of 2 CFR Part 180 procurement contracts for goods and services that are expected to equal or exceed \$25,000, the grantee must verify that the party being awarded a procurement contract is not suspended, debarred, or otherwise excluded by checking the list of excluded parties, obtaining certification from the vendor, or including a clause or condition to the covered transaction with that entity.

Condition. The City did not provide evidence that two out of three vendors being awarded procurements are not suspended, debarred, or otherwise excluded when the City hired the vendors to provide goods or services.

Cause. The City does not have the proper internal controls in place to ensure that evidence of verification of procured transaction is performed in accordance with the requirements of the Uniform Guidance.

Effect. The failure to monitor suspension and debarment could cause funds to be disbursed to contractors or vendors who are not eligible to have goods or services purchased with federal monies.

Questioned Costs. No costs have been questioned as a result of this finding. Upon review of the excluded parties listing subsequent to year end, it was determined that none of the parties that were awarded procurements were excluded parties.

Recommendation. We recommend that the City review its written policies and procedures over federal awards and enforce to ensure that the appropriate suspension and debarment evidence of verifications are retained for all vendors providing goods or services in excess of \$25,000.

View of Responsible Officials. Management concurs with the finding. The City has recently hired a Finance Specialist who will be responsible for federal award compliance, including suspension and debarment verifications. This person will be tasked with retaining documentation for all vendors awarded federal funding in excess of \$25,000.

Responsible Official. Marti Praschan, Chief Financial Officer

Estimated Completion Date. June 30, 2025



CITY OF ANN ARBOR, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2024

None reported.

