

City of Royal Oak,
Michigan



Year Ended
June 30, 2012

Single Audit Act
Compliance

CITY OF ROYAL OAK, MICHIGAN

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report on the Schedule of Expenditures of Federal Awards | 1 |
| Schedule of Expenditures of Federal Awards | 3 |
| Notes to Schedule of Expenditures of Federal Awards | 4 |
| 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 <i>Government Auditing Standards</i> | 5 |
| 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 | 7 |
| Schedule of Findings and Questioned Costs | 9 |
| Summary Schedule of Prior Audit Findings | 12 |



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

December 11, 2012

To the Honorable Mayor and City Commission
City of Royal Oak, 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 Royal Oak, Michigan*, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements, and have issued our report thereon dated December 11, 2012. Our audit was conducted 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 U.S. Office of Management and Budget Circular A-133, 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 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 financial statements or to the 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 financial statements as a whole.



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CITY OF ROYAL OAK, MICHIGAN

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

| Federal Agency / Cluster / Program Title | CFDA Number | Passed Through | Federal Expenditures |
|--|-------------|----------------|----------------------|
| U.S. Department of Housing and Urban Development | | | |
| Community Development Block Grant/Entitlement Grant Cluster: | | | |
| Entitlement Grants | 14.218 | Direct | \$ 1,111,046 |
| ARRA - Entitlement Grants | 14.253 | Direct | 98,072 |
| | | | <u>1,209,118</u> |
| ARRA - Homelessness Prevention and Rapid Re-Housing | 14.257 | MSHDA | 134,807 |
| Lower Income Housing Assistance Program (Section 8 Existing Housing) | | | |
| Voucher Program | 14.871 | Direct | <u>1,277,755</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>2,621,680</u> |
| U.S. Department of Justice | | | |
| Bulletproof Vest Partnership Grant | 16.607 | Direct | 4,596 |
| Justice Assistance Grant | 16.738 | Direct | 18,872 |
| Equitable Sharing | 16.922 | Direct | <u>98</u> |
| Total U.S. Department of Justice | | | <u>23,566</u> |
| U.S. Department of Transportation | | | |
| Safe Communities | 20.609 | MSP | <u>17,337</u> |
| U.S. Department of Energy | | | |
| ARRA - Energy Efficiency and Conservation Block Grant | 81.128 | MSHDA | <u>255,764</u> |
| U.S. Department of Homeland Security | | | |
| Homeland Security Grant Program: | | | |
| Urban Areas Security Initiative | 97.067 | Direct | 100,612 |
| Training Grant | 97.067 | Direct | <u>2,458</u> |
| | | | 103,070 |
| Staffing for Adequate Fire and Emergency Response (SAFER) | 97.083 | Direct | <u>1,260,249</u> |
| Total U.S. Department of Homeland Security | | | <u>1,363,319</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 4,281,666</u> |

See notes to schedule of expenditures of federal awards.

CITY OF ROYAL OAK, 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 Royal Oak, 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 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. Pass-through entity identifying numbers are presented where available.

3. OTHER FEDERAL REVENUE

The City expended federal funds that were passed-through and administered by the Michigan Department of Agriculture. The pass-through funds, which will be included in the State of Michigan's single audit and identified as CFDA # 10.572 and #10.576, were for Project Fresh in the amount of \$4,836.

4. 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:

| Abbreviation | Pass-through Agency Name |
|--------------|--|
| MSHDA | Michigan State Housing Development Authority |
| MSP | Michigan State Police |

5. SUBRECIPIENTS

The City administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the City's reporting entity. Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

| Program Title | CFDA Number | Amount |
|---|-------------|-------------------|
| ARRA - Homelessness Prevention and Rapid Re-Housing | 14.257 | \$ 134,807 |
| Community Development Block Grants | 14.218 | <u>2,000</u> |
| | | <u>\$ 136,807</u> |



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 11, 2012

To the Honorable Mayor and City Commission
City of Royal Oak, 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 Royal, 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 11, 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 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 previously.

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 other matters that we reported to management of the City in a separate letter dated December 11, 2012.

This report is intended solely for the information and use of management, the audit committee, the City Commission, 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 that reads "Lehmann Lobson". 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 11, 2012

To the Honorable Mayor and City Commission
City of Royal Oak, Michigan

Compliance

We have audited the *City of Royal Oak, Michigan's* 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 and Special Tests and Provisions that are applicable to its Section 8 Housing Choice Voucher Program. 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 of Royal Oak, Michigan complied, in all material respects, with the 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, 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 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.

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 deficiencies, 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 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. 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 them.

This report is intended solely for the information and use of management, the audit committee, the City Commission, 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 ROYAL OAK, 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: See below

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:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> | <u>Opinion</u> |
|--------------------|---|----------------|
| 14.218, 14.253 | Community Development Block Grant Cluster | Unqualified |
| 14.871 | Section 8 Housing Choice Vouchers | Qualified |
| 97.083 | Staffing for Adequate Fire and Emergency Response | Unqualified |

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 ROYAL OAK, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-1 - Eligibility Documentation and Property Inspections (Repeat)

Finding Type. Material Noncompliance/Material Weakness in Internal Control over Compliance (Eligibility and Special Tests and Provisions).

Program. Section 8 Housing Choice Voucher Program; U.S. Department of Housing and Urban Development (HUD); CFDA Number 14.871.

Criteria. Federal regulations (24 CFR §982.516) require entities annually to obtain and document in the tenant file third party verification of: (1) reported family annual income; (2) the value of assets; (3) expenses related to deductions from annual income; and (4) other factors that affect the determination of adjusted income or income-based rent. Also, federal regulations (24 CFR part 5 subpart F (24 CFR § 5.601 et seq.) (24 CFR § 982.201, 982.515, and 982.516) require that entities determine income eligibility and calculate the tenant's rent payment using the documentation from third-party verification. In addition, federal regulations (24 CFR § 982.405) require that leased units are required to be inspected at least annually.

Condition. All required documentation used to determine and document income eligibility was not consistently obtained and/or maintained or the documentation was incomplete. In addition, required annual inspections were not completed.

Cause. This condition appears to be the result of a lack of management oversight within the Section 8 Housing Choice Voucher program.

Effect. Of the 39 tenant files selected for testing, 14 did not include required documentation related to eligibility or inspection requirements.

Questioned Costs. No costs have been questioned as a result of this finding inasmuch as no disallowed costs were identified.

View of Responsible Officials. As of June 30, 2012, the City has terminated this program and transferred it to the Ferndale Housing Commission and has provided all files and documentations that they had on hand to Ferndale.

CITY OF ROYAL OAK, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

2012-SA-2 - Unallowable Costs

Finding Type. Immaterial Noncompliance/Significant Deficiency in Internal Control over Compliance (Activities Allowed or Unallowed and Allowable Costs Principles).

Program. Community Development Block Grant Cluster (CDBG); U.S. Department of Housing and Urban Development (HUD); CFDA Number 14.218 and 14.253.

Criteria. Recipients of federal awards are required to spend grant funds on allowable costs, as specified in the grant agreement.

Condition. The City erroneously charged unallowable expenditures to the CDBG program.

Cause. This condition appears to have been caused by manual errors in keying in the appropriate general ledger accounts listed on the invoice. The correct general ledger account was listed on the invoice; however, the actual general ledger account used was in the CDBG program.

Effect. Of the 32 cash disbursements selected for testing, one was for costs that did not relate to the CDBG program.

Questioned Costs. Actual costs of \$450 were considered unallowable costs in relation to the grant program.

Recommendation. Although this appears to be an isolated incident, we encourage management to be more diligent in the review of account codings to ensure that expenditures are not improperly charged to federal grants.

View of Responsible Officials. The City stresses the importance of all internal controls and is working on improvements to the execution of the budget to actual variance review process including grants.

CITY OF ROYAL OAK, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2012

Finding 2011-1 - Internal Controls over Financial Reporting - Material Audit Adjustments

This finding has been corrected for the current year.

Finding 2011-2 - Internal Controls over Eligibility - CFDA # 14.871 - Section 8 Housing Choice Voucher Program

This finding has not been corrected and is being repeated as finding 2012-SA-1.

Finding 2011-3 - Internal Controls over Special Tests and Provisions - CFDA # 14.871 - Section 8 Housing Choice Voucher Program

This finding has not been corrected and is being repeated as finding 2012-SA-1.

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