

City of
Royal Oak,
Michigan



Year Ended
June 30, 2017

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 Required by the Uniform Guidance	1
Schedule of Expenditures of Federal Awards	2
Notes to Schedule of Expenditures of Federal Awards	3
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>	4
Independent Auditors' Report on Compliance for the Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	6
Schedule of Findings and Questioned Costs	9
Summary Schedule of Prior Audit Findings	11



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

December 5, 2017

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* (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 5, 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 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. 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Rehmann Robson LLC

CITY OF ROYAL OAK, MICHIGAN

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Total Subawards	Federal Expenditures
U.S. Department of Housing and Urban Development Community Development Block Grant/Entitlement Grant	14.218	Direct	\$ 18,000	\$ 807,824
U.S. Department of Justice Bulletproof Vest Partnership Grant	16.607	Direct	-	5,088
U.S. Department of Transportation Safe Communities - Strategic Traffic Enforcement	20.600	MSP	-	15,786
U.S. Department of Homeland Security Hazard Mitigation Grant Program	97.039	MSP	-	10,344
Homeland Security Grant Program - Training Grant	97.067	OAK	-	1,143
Total U.S. Department of Homeland Security			-	11,487
Total Expenditures of Federal Awards			\$ 18,000	\$ 840,185

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, 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 the City, it is not intended to and does not present the financial position, changes in net position 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, 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.

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. OTHER FEDERAL REVENUE

The City expended federal funds that were passed-through and administered by the Michigan Department of Agriculture ("MDOA"), the Secret Service, and the Federal Bureau of Investigations ("FBI"). The MDOA 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 \$216. The Secret Service pass-through funds were for the Southeastern Michigan Financial Crimes Task Force project in the amount of \$22,484. The FBI pass-through funds were for the FBI Special Detail project in the amount of \$11,390.

4. 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:

Abbreviation	Pass-through Agency Name
MSP	Michigan State Police
OAK	Oakland County, 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 5, 2017

Honorable Mayor and City Commission
City of Royal Oak, 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 Royal Oak, Michigan* (the "City"), as of and for the year ended June 30, 2017, 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 5, 2017.

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) 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'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. 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'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 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 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.

A handwritten signature in black ink that reads "Lehmann Lohman LLC". The signature is written in a cursive, flowing style.

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

December 5, 2017

Honorable Mayor and City Commission
City of Royal Oak, Michigan

Report on Compliance for the Major Federal Program

We have audited the compliance of the *City of Royal Oak, Michigan* (the "City") with the types of compliance requirements described 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, 2017. The City's major federal program is identified in the summary of auditors' 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.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program 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 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'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

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 its major federal program for the year ended June 30, 2017.

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 2017-001. Our opinion on the major federal program is not modified with respect to this matter.

The City's response to the noncompliance finding identified in our audit is 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 compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of the City 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's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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'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. *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 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, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is 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 compliance and, accordingly, we express no opinion on it.

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 Johnson LLC". The signature is written in a cursive, flowing style.

CITY OF ROYAL OAK, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

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? _____ 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: Unmodified

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:

CFDA Number

Name of Federal Program or Cluster

14.218

Community Development Block Grant Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

X yes _____ no

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

CITY OF ROYAL OAK, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-001 - Reporting of Accrued Expenditures in CAPER (Repeat)

Finding Type. Immaterial Noncompliance; Significant Deficiency in Internal Control over Compliance (Reporting).

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

Criteria. The PR-26 report is submitted as part of the Consolidated Annual Performance Evaluation Report (CAPER). This report should include all expenditures for the program year, including accrued expenditures.

Condition. Certain expenditures incurred and requested by the City during the year were not included in the PR-26 report, and as a result, the PR-26 did not agree to the underlying accounting records.

Cause. This condition appears to be the result of an oversight when reporting expenditures.

Effect. As a result of this condition, the City's PR-26 report did not agree to the underlying accounting records.

Questioned Costs. No costs have been questioned as a result of this finding.

Recommendation. We recommend that management prepare required reports in accordance with the requirements of grant agreements, including the reporting instructions for such grants.

View of Responsible Officials. In the future, staff will reconcile the dollar amount prior to submittal of the year-end report to HUD. A written reminder and instructions have been included in the electronic folder associated with the year-end report.



CITY OF ROYAL OAK, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2017

2016-001 - Disposition of Real Property

Condition. The City sold real property that was acquired originally with CDBG funds, and did not obtain disposition instructions from the awarding agency prior to the sale of the assets. As a result, the City did not ascertain what should be done with the sale proceeds in advance of the sale. The City received input from HUD following the audit. This finding was adequately resolved.

2016-002 - Written Policies Required by the Uniform Guidance

The Uniform Guidance requires a non-federal entity that has expended federal awards for a grant awarded on or after December 26, 2014 to have written policies pertaining to: 1) Payments (draws of federal funds and how to minimize the time lapsing between the receipt of federal funds and the disbursement to contractors/employees/subrecipients) (§200.302(6)); and 2) Allowability of costs charged to federal programs (§200.302(7)). Although the City had processes in place to cover these areas, there were no formal written policies covering payments and allowability of costs until after the end of the fiscal year. The City implemented written policies over these areas during the fiscal year, and has deferred implementation of procurement standards as allowed. This finding was adequately resolved.

2016-003 - Reporting of Accrued Expenditures in CAPER

The PR-26 report is submitted as part of the Consolidated Annual Performance Evaluation Report (CAPER). This report should include all expenditures for the program year, including accrued expenditures. The final expenditure draw for fiscal year 2016 expenditures was not included in the PR-26 report, and as a result, the PR-26 did not agree to the underlying accounting records. This matter was repeated as finding 2017-001.

