

City of Benton  
Harbor,  
Michigan



Year Ended  
June 30, 2019

Single Audit Act  
Compliance

# CITY OF BENTON HARBOR, 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>	5
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	7
Schedule of Findings and Questioned Costs	10
Summary Schedule of Prior Audit Findings	14
Corrective Action Plan	15



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

December 16, 2019

Honorable members of the City Commission  
of the City of Benton Harbor  
Benton Harbor, 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 Benton Harbor, Michigan* (the "City") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 16, 2019, 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 BENTON HARBOR, MICHIGAN

## Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2019

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Agriculture Rural Business Development Grant	10.351	Direct	ACI 17-0216	<u>\$ 60,000</u>
U.S. Department of Housing and Urban Development Community Development Block Grant Cluster:				
2013 Entitlement	14.218	Direct	B-13-MC-26-0035	60,966
2014 Entitlement	14.218	Direct	B-14-MC-26-0035	54,779
2015 Entitlement	14.218	Direct	B-15-MC-26-0035	249,757
2016 Entitlement	14.218	Direct	B-16-MC-26-0035	249,830
2017 Entitlement	14.218	Direct	B-17-MC-26-0035	229,332
2018 Entitlement	14.218	Direct	B-18-MC-26-0035	<u>98,690</u>
Total U.S. Department of Housing and Urban Development				<u>943,354</u>
Total Expenditures of Federal Awards				<u><u>\$ 1,003,354</u></u>

See notes to schedule of expenditures of federal awards.

# CITY OF BENTON HARBOR, 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 Benton Harbor, Michigan (the “City”) under programs of the federal government for the year ended June 30, 2019. 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 basic financial statements. The City’s financial statements include the operations of the Twin Cities Area Transportation Authority and the Benton Harbor Housing Commission discretely presented component units, which received federal awards that are not included in the Schedule for the year ended June 30, 2019, as these entities were 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, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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 de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

### 3. RECONCILIATION TO FINANCIAL STATEMENTS

A reconciliation of the amounts presented in the Schedule to the amounts presented in the financial statements is as follows:

Federal revenue as reported in the financial statements	\$ 1,168,718
Less: Federal revenue received in current year for prior year expenditures	<u>(165,364)</u>
Federal expenditures as reported on the Schedule	<u><u>\$ 1,003,354</u></u>



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

December 16, 2019

Honorable members of the City Commission  
of the City of Benton Harbor  
Benton Harbor, 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 Benton Harbor, Michigan* (the "City"), as of and for the year ended June 30, 2019, 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 16, 2019. Our report includes a reference to other auditors who audited the financial statements of the Twin Cities Area Transportation Authority and Benton Harbor Housing Commission component units, 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.

#### 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 "Rehmann Lohman LLC". The signature is written in a cursive, flowing style.

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

December 16, 2019

Honorable members of the City Commission  
of the City of Benton Harbor  
Benton Harbor, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of the *City of Benton Harbor, 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, 2019. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements include the operations of the Twin Cities Area Transportation Authority and Benton Harbor Housing Commission component units, which received federal awards that are not included in the schedule of expenditures of federal awards. Our audit, described below, did not include the operations of the Twin Cities Area Transportation Authority and Benton Harbor Housing Commission, as those entities engaged other auditors to perform their audits.

*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 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'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 each major federal program. However, our audit does not provide a legal determination of the City's compliance.

#### *Opinion on Each 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, 2019.

#### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

#### 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 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'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 did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

The City’s responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

*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 "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

# CITY OF BENTON HARBOR, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

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

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:

#### 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?

           yes       X       no

# CITY OF BENTON HARBOR, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

### SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

# CITY OF BENTON HARBOR, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### 2019-001 - Errors and Omissions in HUD Reporting

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

**Program.** Community Development Block Grant; U.S. Department of Housing and Urban Development; CFDA Number 14.218; Award Number B-13-MC-26-0035, B-14-MC-26-0035, B-15-MC-26-0035, B-16-MC-26-0035, B-17-MC-26-0035, and B-18-MC-26-0035.

**Criteria.** Recipients of federal awards are required to report various financial and non-financial information to the grantor or pass-through agency, as specified in the grant agreement and/or the OMB compliance supplement.

**Condition.** The City is required for its Community Development Block Grant program to file a comprehensive annual performance and evaluation report (CAPER) and section three summary reports. During the year, the City failed to submit the required section three summary reports. In addition, the CAPER for the year ended June 30, 2019, which is due within 90 days of the fiscal year end, had not been completed through the date of audit fieldwork. The CAPER for the year ended June 30, 2018 was submitted as required, but contained financial data that did not agree to the City's underlying accounting records for the reporting period as required.

**Cause.** This condition appears to have been caused by a lack of complete knowledge of applicable federal compliance requirements and also employee turnover in the economic development department.

**Effect.** As a result of this condition, the City did not fully comply with the requirements of the grant and filed reports that contained financial errors.

**Questioned Costs.** No costs are required to be questioned as a result of this finding, as the reports did not serve as a basis for cost-reimbursement.

**Recommendation.** We recommend that reports required to be submitted to the oversight agency that contain financial information be reviewed and approved by the finance department to ensure accuracy of the financial information.

**View of Responsible Officials.** Before submitting to HUD the required financial reports, the Community and Economic Development (CED) Department will submit the financial reporting to the Finance Department for review of accuracy of the information to be submitted. Also, the CED staff is currently working with HUD representatives to get technical assistance on reporting and processes to ensure all information is accurate and timely.

# CITY OF BENTON HARBOR, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2019

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### 2019-002 - Written Policies and Procedures Required by the Uniform Grant Guidance

**Finding Type.** Immaterial Noncompliance/Significant Deficiency in Internal Control over Compliance (Allowable Costs/Costs Principles, Cash Management, and Procurement Suspension and Debarment).

**Program.** Community Development Block Grant; U.S. Department of Housing and Urban Development; CFDA Number 14.218; Award Number B-13-MC-26-0035, B-14-MC-26-0035, B-15-MC-26-0035, B-16-MC-26-0035, B-17-MC-26-0035, and B-18-MC-26-0035.

**Criteria.** 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 various areas, including: 1) Payments (draws of federal funds and how to minimize the time elapsing between the receipt of federal funds and the disbursement to contractors/employees/subrecipients) (§200.302 (6)); 2) Procurement (including bidding and a conflict of interest policy) (§200.318); 3) Allowability of costs charged to federal programs (§200.302 (7)); 4) Compensation (personnel and benefits policy) (§200.430 and §200.431); and 5) Travel costs (including mileage and per diem) (§200.474).

**Condition.** Although the City has processes in place to cover these areas, there are not formal written policies covering the above items that address all of the areas required by the Uniform Guidance.

**Cause.** This condition appears to be the result of a time lag in identifying the requirement and developing a plan for compliance.

**Effect.** As a result of this condition, the City did not fully comply with the Uniform Guidance applicable to the above noted grants.

**Questioned Costs.** No costs were required to be questioned as a result of this finding inasmuch as our testing did not reveal any unallowed costs or excess cash draws.

**Recommendation.** We recommend that the City draft the required policies as soon as practical, but no later than the end of fiscal year 2020.

**View of Responsible Officials.** The Community and Economic Development (CED) Department is in the process of compiling policies and procedures and has drafted policies for Financial Management, Procurement, Allowability of Costs, Compensation and Travel. The remaining required policies and procedures will be approved and in effect before the fiscal year end 2020.



# CITY OF BENTON HARBOR, MICHIGAN

## ■ Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2019

None noted.





## Corrective Action Plan

Pursuant to federal regulations, Uniform Administrative Requirements Section 200.511, the following are the findings as noted in the City of Benton Harbor's Single Audit report for the year ended June 30, 2019, and corrective actions to be completed.

### 2019-001 - Errors and Omissions in HUD Reporting

**Auditor Description of Condition and Effect.** The City is required for its Community Development Block Grant program to file a comprehensive annual performance and evaluation report (CAPER) and section three summary reports. During the year, the City failed to submit the required section three summary reports. In addition, the CAPER for the year ended June 30, 2019, which is due within 90 days of the fiscal year end, had not been completed through the date of audit fieldwork. The CAPER for the year ended June 30, 2018 was submitted as required, but contained financial data that did not agree to the City's underlying accounting records for the reporting period as required. As a result of this condition, the City did not fully comply with the requirements of the grant and filed reports that contained financial errors.

**Auditor Recommendation.** We recommend that reports required to be submitted to the oversight agency that contain financial information be reviewed and approved by the finance department to ensure accuracy of the financial information.

**Corrective Action.** Before submitting to HUD the required financial reports, the Community and Economic Development (CED) Department will submit the financial reporting to the Finance Department for review of accuracy of the information to be submitted. Also, the CED staff is currently working with HUD representatives to get technical assistance on reporting and processes to ensure all information is accurate and timely.

**Responsible Person.** Economic Development Director

**Anticipated Completion Date:** June 30, 2020

### 2019-002 - Written Policies and Procedures Required by the Uniform Grant Guidance

**Auditor Description of Condition and Effect.** Although the City has processes in place to cover these areas, there are not formal written policies covering the areas required by the Uniform Guidance. As a result of this condition, the City did not fully comply with the Uniform Guidance applicable to the above noted grants.

**Auditor Recommendation.** We recommend that the City draft the required policies as soon as practical, but no later than the end of fiscal year 2020.



## Corrective Action Plan

Pursuant to federal regulations, Uniform Administrative Requirements Section 200.511, the following are the findings as noted in the City of Benton Harbor's Single Audit report for the year ended June 30, 2019, and corrective actions to be completed.

**Corrective Action.** The Community and Economic Development (CED) Department is in the process of compiling policies and procedures and has drafted policies for Financial Management, Procurement, Allowability of Costs, Compensation and Travel. The remaining required policies and procedures will be approved and in effect before the fiscal year end 2020.

**Responsible Person.** City Manager

**Anticipated Completion Date:** June 30, 2020