

City of Flint,
Michigan



Year Ended
June 30, 2019

Single Audit Act
Compliance

CITY OF FLINT, 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	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 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	31



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

April 15, 2020

Members of the City Council
City of Flint, 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 Flint, 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 27, 2019, which contained unmodified opinions on those financial statements. Our report includes a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Flint, Michigan's 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 FLINT, 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	Total Subawards	Federal Expenditures
U.S. Department of Commerce Economic Development Cluster - Title IX Revolving Loan Fund	11.307	Direct	n/a	\$ -	\$ 1,435,369
U.S. Department of Housing and Urban Development Community Development Block Grant/Entitlement Grant Cluster:					
2011 & Prior Entitlement	14.218	Direct	B-11-MC-26-0018	-	21,665
2012 Entitlement	14.218	Direct	B-12-MC-26-0018	525	3,860
2013 Entitlement	14.218	Direct	B-13-MC-26-0018	2,658	148,557
2014 Entitlement	14.218	Direct	B-14-MC-26-0018	15,729	106,748
2015 Entitlement	14.218	Direct	B-15-MC-26-0018	174,417	282,100
2016 Entitlement	14.218	Direct	B-15-MC-26-0018	389,565	759,336
2017 Entitlement	14.218	Direct	B-17-MC-26-0018	713,112	2,027,215
2018 Entitlement	14.218	Direct	B-18-MC-26-0018	429,212	1,074,453
				<u>1,725,218</u>	<u>4,423,934</u>
Emergency Solutions Grant Program:					
Emergency Solutions Grant	14.231	Direct	B-17-MC-26-0018	219,778	246,863
Emergency Solutions Grant	14.231	Direct	B-18-MC-26-0018	154,432	158,860
				<u>374,210</u>	<u>405,723</u>
HOME Investment Partnership Program:					
2011 & Prior Grant Years	14.239	Direct	M-11-MC-26-0204	50,823	50,823
2012 Grant Year	14.239	Direct	M-12-MC-26-0204	453,875	453,875
2013 Grant Year	14.239	Direct	M-13-MC-26-0204	628,167	628,167
2014 Grant Year	14.239	Direct	M-14-MC-26-0204	521,575	521,575
2015 Grant Year	14.239	Direct	M-15-MC-26-0204	176,357	177,682
2016 Grant Year	14.239	Direct	M-16-MC-26-0204	211,199	261,571
2017 Grant Year	14.239	Direct	M-17-MC-26-0204	250,000	288,192
2018 Grant Year	14.239	Direct	M-18-MC-26-0204	340,000	340,000
				<u>2,631,996</u>	<u>2,721,885</u>
Choice Neighborhoods Planning Grants:					
Neighborhood Stabilization Program (Recovery Act) Program Income	14.892	Direct	B-09-CN-MI-0035	-	99,140
FY2017 Choice Neighborhood Implementation Grant	14.892	Direct	MI5F519CNG117	-	103,139
				<u>-</u>	<u>202,279</u>
Lead Hazard Reduction Demonstration Grant Program	14.900	Direct	MILH0683-18	-	3,122
Total U.S. Department of Housing and Urban Development				<u>4,731,424</u>	<u>7,756,943</u>
U.S. Department of Justice Edward Byrne Memorial Justice Assistance Grant Program:					
2014 Grant Year	16.738	FT	2014-H2514-MI-DJ	-	30,691
2015 Grant Year	16.738	FT	2015-H2814-MI-DJ	-	36,400
2016 Grant Year	16.738	FT	2016-H3232-MI-DJ	-	38,793
2017 Grant Year	16.738	FT	2017-H2252-MI-DJ	-	51,504
				<u>-</u>	<u>157,388</u>
Sexual Assault Kit Initiative Grant	16.833	Direct	2015-AK-BX-K016	-	517,240
Total U.S. Department of Justice				<u>-</u>	<u>674,628</u>

continued...

CITY OF FLINT, 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	Total Subawards	Federal Expenditures
U.S. Environmental Protection Agency					
Drinking Water State Revolving Fund Cluster-					
Capitalization Grants for Drinking Water State Revolving Funds:					
WIIN Arcadis	66.468	EGLE	n/a	\$ -	\$ 477,160
WIIN Arcadis	66.468	EGLE	n/a	-	250,936
WIIN (2017)	66.468	EGLE	7421-01	-	3,652,786
WIIN (2018)	66.468	EGLE	7422-01	-	1,996,278
				<u>-</u>	<u>6,377,160</u>
U.S. Department of Health and Human Services					
Childhood Lead Poisoning Prevention Projects, State and Local Childhood -					
Lead Poisoning Prevention and Surveillance of					
Blood Lead Levels in Children	93.197	MDHHS	CDC-RFA-EHA17-170402Cont18	-	5,764
Substance Abuse and Mental Health Services Projects of Regional and National Significance -					
SAMHSA - Flint ReCast	93.243	Direct	1H79SM063521-01	-	899,251
Medicaid Cluster:					
Children's Health Insurance Program WLRP - 2018	93.778	MDHHS	E20182803-00	-	2,365,357
Children's Health Insurance Program WLRP - 2019	93.778	MDHHS	WLRP-2019	-	2,230,947
Total Medicaid Cluster				<u>-</u>	<u>4,596,304</u>
Healthy Start Initiative	93.926	GC	U62MC3110	-	28,140
Total U.S. Department of Health and Human Services				<u>-</u>	<u>5,529,459</u>
Corporation for National And Community Service					
Volunteers in Service to America	94.013	Direct	15VSNM1001	-	2,861
U.S. Department of Homeland Security					
Staffing for Adequate Fire & Emergency Response	97.083	Direct	EMW-2015-FH-00796	-	1,633,047
Total Expenditures of Federal Awards				<u>\$ 4,731,424</u>	<u>\$ 23,409,467</u>

concluded.

See notes to schedule of expenditures of federal awards.

CITY OF FLINT, 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 Flint, Michigan (the “City”) under programs of the federal government for the year ended June 30, 2019. The information in the 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.

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. Negative amounts, if any, 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
FT	Flint Township
GC	Genesee County
EGLE	Michigan Department of the Environment, Great Lakes, and Energy
MDHHS	Michigan Department of Health and Human Services



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 27, 2019

Members of the City Council
City of Flint, 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 Flint, 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 27, 2019. Our report includes a reference to other auditors who audited the financial statements of the Hurley Medical Center and the Flint Area Economic Corporation, 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. The financial statements of the Flint Area Economic Corporation were not audited in accordance with *Government Auditing Standards*.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items 2019-001 through 2019-012 that we consider to be material weaknesses.

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* with the exception of the item reported as item 2019-009.

City of Flint's Response to Findings

The City's responses to the 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 the financial statements and, accordingly, we express no opinion on them.

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.



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

April 15, 2020

Members of the City Council
City of Flint, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of the *City of Flint, Michigan* (the "City") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2019. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's basic financial statements also include the operations of the Hurley Medical Center and the Flint Area Enterprise Community, which may have received certain federal awards that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2019. Our audit, described below, did not include the operations of the Hurley Medical Center and the Flint Area Enterprise Community because they arranged for separate 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 each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the 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.

Basis for Qualified Opinion on the HOME program

As described in item 2019-017 in the accompanying schedule of findings and questioned costs, the City did not comply with the special tests and provisions requirement applicable to its HOME program. Compliance with this requirement is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on the HOME program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 HOME program for the year ended June 30, 2019.

Basis for Qualified Opinion on the Medicaid Cluster

As described in item 2019-014 in the accompanying schedule of findings and questioned costs, the City did not comply with the reporting requirement applicable to its Medicaid Cluster. Compliance with this requirement is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on the Medicaid Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 Medicaid Cluster for the year ended June 30, 2019.

Unmodified Opinion on the Other 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 other major federal program identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed other 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 2019-015, 2019-016 and 2019-018. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and another 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 a combination of deficiencies, in internal control over compliance such that there is 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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2019-013, 2019-014, 2019-015, and 2019-017 to be material weaknesses.

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 2019-016 to be a significant deficiency.

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.



CITY OF FLINT, MICHIGAN

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

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? X yes none reported

Identification of major programs, and type of auditors' report issued on compliance:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Opinion</u>
14.239	HOME Investment Partnership Program	Qualified
66.468	Drinking Water State Revolving Fund Cluster	Unmodified
93.778	Medicaid Cluster	Qualified

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

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 FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-001 - Material Audit Adjustments (repeat comment)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During the audit, multiple versions of the trial balance and adjustments were provided in order to reach proper year-end balances. The majority of the adjustments that were made to the trial balance were identified by the auditors, while a few were identified by the City.

Cause. This condition was the result of a lack of management oversight. Internal controls did not detect all adjustments necessary to properly record year-end balances.

Effect. As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements. Specifically, the following areas were misstated:

- i. Pooled cash affecting multiple opinion units was overstated by \$627,884, expenditures were understated by \$644,221 and accounts receivable was overstated by \$16,337. This entry was due to the City not posting activity in the bank accounts to the general ledger.
- ii. Due from other governments and deferred inflows in the general fund were understated by \$243,000.
- iii. Due from other governments and deferred inflows were understated in the general fund by \$243,743. The City did not record a receivable for reimbursable grant expenditures that were received more than 60 days after year end.
- iv. The allowance for uncollectable income taxes in the general fund was understated by \$1,599,273, the related receivable was overstated by \$1,505,731 and income tax revenue was understated by \$53,542. The City was not using the proper reports when recording its receivables, and as a result the receivable, revenue and allowance required adjustment.
- v. Due to other governments was overstated and revenue understated in the general fund by \$74,553. The City had amounts due to the County for a portion of fees related to police arrests. However, an agreement or other documentation that the City owed these funds to the County were not available. The City therefore recorded this as revenue.
- vi. Prepays were overstated and expenditures were understated in the general fund and the grants special revenue fund by \$73,793 and \$945,546, respectively. This adjustment was the result of the City recording amounts incorrectly for p-card purchases to prepaid instead of expenditures.
- vii. Unearned revenue was overstated and federal revenue was understated in the grant fund by \$569,295. The City incorrectly recorded amounts reimbursable from its CDBG grants as unearned revenue instead of deferred inflows in the prior year. The revenue was also not recognized as earned in the current year.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

- viii. Accounts receivable and other revenue were understated in the insurance internal service fund by \$334,557 due to the City not recorded amounts due from the State for reimbursements of overpayment of worker's compensation claims in prior years.
- ix. Claims payable and the related expense were understated in the insurance internal service fund by \$222,669 to record liabilities identified in auditor initiated attorney letters.
- x. Charges for water and sewer services and the related receivable were understated in the water and sewer funds by \$778,705 and \$935,445, respectively. The City did not book the amounts being recorded on the tax rolls for delinquent water and sewer bills correctly.
- xi. Due from other governments and grant revenue were understated by \$3,844,401 and \$518,081 in the water fund and grants special revenue fund, respectively. The City required an adjustment to receivables and revenue for expenses/expenditures to equal revenue for reimbursement-based grants.
- xii. Allowance for doubtful accounts and bad debt expense were overstated in the water and sewer funds by \$1,888,288 and \$1,960,647, respectively to properly record accounts deemed uncollectable for water and sewer billings.
- xiii. Long-term debt, right to use asset and due from GLWA were understated in the water fund by \$103,265,747, \$3,101,189 and \$100,167,775, respectively. This entry was to record the liabilities and assets related to the City's obligation for debt issued by the KWA and the related receivable from GLWA to offset those debt payments.
- xiv. Long-term debt and capital lease receivable in the EDC component unit were understated by \$7,715,000. The City did not record the long-term debt or the related lease receivable related to a building that is leased to the State.
- xv. Deferred inflows and loans receivable in the EDC component unit were overstated by \$176,000. The City determined that two loans were uncollectable and as a result, the allowance for uncollectable accounts and the related deferred inflows were adjusted to equal the receivable.
- xvi. Deferred inflows was overstated and interest revenue was understated in the EDC component unit by \$13,477. The City did not properly adjust its deferred inflows and revenue for recognition of current year payments.
- xvii. Expenditures, revenues and accounts receivable were understated in the EDC component unit by \$671,185, \$728,088 and \$56,902, respectively. The EDC component unit was recording all activity in one liability account as net amounts instead of recording income statement amounts as required.

Recommendation. We recommend that the City prepare, review, and reconcile all year-end schedules that are used in financial reporting prior to audit fieldwork.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-002 - Prior Period Adjustments

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. The City had various unsupported balances and incorrect amounts presented in its June 30, 2018 comprehensive audited financial report (CAFR).

Cause. This condition was the result of a lack of management oversight. Internal controls did not detect all adjustments necessary to properly record year-end balances in the prior year.

Effect. As a result of this condition, the City's fund balance and/or net position had to be restated by the following amounts:

- i. Beginning equity and receivables in the water fund and sewer fund were overstated by \$456,101 and \$1,916,628, respectively. Receivables were double-booked in the prior year.
- ii. Beginning equity was understated and accrued liabilities were overstated in the EDC component unit by \$525,956. This is the result of the EDC recorded all of the debt related activity in previous years to a liability account instead of presenting the gross revenue and expenditures and the difference as equity.
- iii. Beginning equity was understated and accrued liabilities were overstated in the Act 251 Fund by \$737,868. Drug forfeitures were recorded as unearned revenue and were not being released and recognized as revenue once the case is settled or otherwise closed.
- iv. Beginning equity was understated and accrued liabilities were overstated in the fringe benefit internal service fund by \$1,177,505. This is the result of payables being recorded in prior years and not being appropriately reversed in the subsequent year.
- v. Beginning equity was overstated and accrued interest payable was understated in the EDC component unit by \$66,284. Interest payable was not recorded as required in the prior year.
- vi. Beginning equity was understated and unearned revenue was overstated in the grants special revenue fund by \$262,123. This is the result of seized gun sales being recorded as unearned revenue instead of restricted net position.
- vii. Beginning equity was understated and deferred inflows were overstated in the garbage special revenue fund, parks special revenue fund, police special revenue fund, public safety special revenue fund and the public improvement debt service fund by \$284,536, \$14,485, \$57,977, \$172,604 and \$72,471, respectively. Beginning equity was also overstated in governmental activities by \$2,355,373. This is the result of deferred inflows related to taxes exceeding the net property tax receivable in the prior year which also caused a government-wide prior period adjustment due to the revenue being recognized in the government-wide statements in prior years.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

- viii. Beginning equity was understated and unearned revenue was overstated in governmental activities by \$569,295. This is the result of an improper classification of amounts between unearned and deferred inflows in the grants special revenue fund.
- ix. Beginning equity was overstated by \$5,759,221, deferred inflows were understated by \$7,320,000, allowance for bad debt expense was overstated by \$1,755,000 and due from the DDA was overstated by \$194,221. This also resulted in a government-wide adjustment for understated equity of \$7,320,000. This adjustment is the result of the recording of receivables on the City that did not match the payable on the DDA records.
- x. Beginning equity was overstated in the sewer fund by \$396,983. This is the result of receivables not being recorded to match grant expenses with revenues.
- xi. Beginning equity was overstated in the sewer fund and understated in the water fund by \$434,557 and \$1,533,658, respectively. This is the result of tax liens that should have been recorded as adjustments to receivables and revenue in the prior year being recorded in the current fiscal year.
- xii. Beginning equity was overstated in the water fund by \$1,400,048. This is the result of invoices being expensed in the current year that should have been expensed in the prior year.

Recommendation. Management has already taken appropriate corrective action by posting correcting journal entries.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-003 - Segregation of Incompatible Duties

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing effective internal controls to safeguard the City's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Condition. As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Specific areas of concern include:

- i. For several months throughout the year, the City was without a purchasing manager. The City had an employee who had the power to initiate requisitions, approve purchase orders and approve invoices for payment.
- ii. Twelve out of twenty selections for journal entry testing did not have evidence of a reviewer.

Cause. This condition was the result of a lack of management oversight and turnover in key accounting personnel.

Effect. As a result of this condition, the City is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation. While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-004 - Preparation of the Schedule of Expenditures of Federal Awards

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. The Uniform Guidance requires that the City “identify, in its accounts, all federal awards received and expended and the federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the federal agency, and name of the pass-through entity.” In addition, the City is required to “prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with the Uniform Guidance.”

Condition. While management was able to provide a mostly complete schedule of expenditures of federal awards (SEFA) at the beginning of audit fieldwork, a material adjustment to properly report the Title IX Revolving Loan Fund was ultimately required resulting in changes to the total federal awards expended, which in turn required a reassessment of risk in determining and selecting major federal programs for testing. Additionally, the City was unable to provide explanation of how this amount is calculated using its accounting records in accordance with the OMB Compliance Supplement for this grant.

Cause. As is the case with other large governments, the City administers a wide array of federal and state grants through its many departments. The function of grant administration is highly decentralized and the finance department and the economic development department were not aware that this grant was required to be reported on the SEFA.

Effect. The City's SEFA preparation process did not detect material variances in the originally reported federal expenditures, resulting in the amount of federal expenditures changing throughout the audit.

Recommendation. The City should evaluate its processes to ensure that all federal programs are appropriately included on the SEFA.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-005 - Capital Assets (repeat comment)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. The City should maintain complete and accurate capital assets records. The records should be updated and reviewed by the City for completeness and conformity to generally accepted accounting principles (GAAP).

Condition. We noted the following as part of our testing:

- i. There were four assets that should have been capitalized, but were not, which amounted to \$1,342,404.
- ii. The City included \$613,240 in accounts payable, expenditures and the capital asset records in error.
- iii. Three assets amounting to \$1,985,274 in cost originally had 20 year useful lives, but should have had 50 year useful lives.
- iv. Twelve assets totaling \$5,574,321 did not have the correct placed-in-service dates.
- v. The City had originally only booked half a year's depreciation expense because of errors in the BS&A capital asset module and report generation.

Cause. Internal controls did not detect all of the necessary items to be capitalized and depreciated.

Effect. The City has not maintained or reconciled accurate reports for capital assets, requiring additional audit work. Governmental activities capital assets were understated and expenditures were overstated by \$729,164. Additionally, the error in useful lives, service dates and errors in the capital asset module resulted in depreciation expense and accumulated depreciation initially being understated by \$9,291,427.

Recommendation. We recommend that the City implement procedures to verify that all capital asset records are correct and all additions are properly included and depreciated.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-006 - Purchasing Cards (repeat comment)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. The City is responsible for developing policies and a system of internal control that ensures the City limits its exposure to misstatement whether due to fraud or error.

Condition. In order to observe the internal controls over purchasing cards (p-cards), we selected five transactions for testing. Of the five selected, we noted three instances in which the department head authorized an individual to have a p-card, but the p-card administrator did not approve the card in accordance with the City's policy. We also noted one instance in which the approval form could not be provided to us at all and one form in which every signature was the same individual in the finance department. Additionally, the City was unable to provide expense reports or receipts for two of the five transactions selected for testing. Finally, the City also has a process in place where department head purchases are approved by subordinates in that department. This is not a proper level of independent review.

Cause. The City has a policy in place that is not being followed.

Effect. As a result of this condition, the City is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation. The City should evaluate its policies and procedures to verify that all employees are following the requirements and retain documentation and approval of all p-card purchases.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-007 - Unsupported Accounts (repeat comment)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. The agency fund has cash and an offsetting liability for \$705,811 that the City was not able to provide a detailed list of who the City is holding these funds for. Additionally, the City has \$634,545 recorded in the general fund which is management's estimate for the amount due to the District Court.

Cause. This condition was the result of a lack of management oversight. Internal controls did not detect all adjustments necessary to properly record year-end balances.

Effect. The City's accounting records could be potentially misstated with no detail to support the individual payable items.

Recommendation. We recommend that the City review its accounts, determine the individual items payable or receivable, and adjust accordingly.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-008 - Utility Billing

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing effective internal controls to safeguard the City's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Condition. The City has approximately \$2.5 million in credit balances spread across roughly 8,000 accounts in the utility billing module. Included in the \$2.5 million is a \$1.2 million dollar credit to a large corporate entity that should either be applied against other billings or remitted to that entity. Additionally, any credits to customer accounts do not appear to have a formal approval process in place. The billing supervisor can approve credits and then also approve the final billings before they are sent to customers. This is an inappropriate segregation of incompatible duties. Water Residential Assistance Program ("WRAP") credits can be applied to an account without any oversight over whether someone is eligible or independently approved. Finally, the service charges for water in the utility billing system did not agree to the approved rates.

Cause. This condition was the result of a lack of management oversight. Policies and internal controls are not designed properly.

Effect. As a result of this condition, the City is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation. We recommend that the City implement proper internal controls over utility billing and document through a written policy. Any WRAP credits should also be approved correctly in accordance with a policy and documented. Additionally, credit balances for utility billing should be escheated to the State or applied to different accounts for the same customer.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-009 - Investments

Finding Type. Material Noncompliance; Material Weakness in Internal Control over Financial Reporting.

Criteria. Michigan State law requires the City to have an investment policy and that the City's investments are allowable in accordance with Public Act 20 of 1943.

Condition. The City was unable to provide an approved investment policy. Additionally, the City has \$625,650 recorded in a Death Benefit "trust fund". However, a formal trust agreement does not exist, so the investments are required to comply with PA 20. We noted that the investments are not in compliance and the amounts are material to the financial statements.

Cause. This condition appears to be the result of an oversight of not putting the investments in a trust fund.

Effect. As a result of this condition, the City is out of compliance with State law.

Recommendation. We recommend that the City maintain an approved investment policy and verify that its investments are allowable in accordance with State law. We also recommend that the City create a legally irrevocable trust for the death benefit and that the funds be deposited into this trust.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-010 - Payroll Documentation

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining payroll documentation to support the rates employees are paid.

Condition. We noted one instance out of six files tested as part of our OPEB census testing for which documentation of an employee's union code was not available in their employee file. Additionally, we noted one instance out of seven individuals tested as part of the pension census that did not have documentation of the employee's hire date in the file. We also noted two instances, one of which was part of the OPEB census testing, in which an employee had a pay increase and documentation of approval of this increase was not available and did not agree to the City's compensation schedule.

Cause. This condition appears to be the result of City employees making changes and not retaining documentation or approval.

Effect. As a result of this condition, City employees may be being paid incorrectly and the pension and OPEB census data used by the actuaries may be incorrect.

Recommendation. We recommend that the City document all employee's salaries, raises and changes with documentation that contains the proper approval. Additionally, the City should verify that census data being provided to the actuaries is correct and supported by documentation in the employee files.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-011 - Cash Receipts

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining internal control to safeguard the City's assets.

Condition. The City does not have a process in place to properly document and approve cash overages or shortages when reconciling cash drawers in the Treasurer's Office. The drawers in the Treasurer's Office also do not lock and there is often a significant amount of cash on hand because there is no procedure to transfer cash to the safe throughout the day.

Cause. This condition appears to be the result of City not considering and implementing proper internal controls.

Effect. As a result of this condition, the City is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation. We recommend that the City implement procedures that require cash overages and shortages be documented, reviewed and approved. Additionally, the City should require cash transfers from the customer service drawers to the safe when cash reaches a certain amount as determined by the City's policy.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-012 - Purchasing

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. The City's purchasing ordinance states that some form of competitive bidding based upon adequate and complete specifications will be implemented for all purchases projected to exceed \$10,000. Any competitive bids and the related bid selection documentation should be retained by the City. Purchases should not be made until an approved purchase order is in place.

Condition. During our testing of the procurement process for the Department of Public Works ("DPW") we noted two vendors starting work prior to purchase order approval and/or contracts with vendors being fully executed. We further noted two issues with contracts where they were not dated. We were not able to test bid tabulation for two requests for proposals because the City could not provide support for the selected requests.

Additionally, we examined a City Council resolution for a fire truck purchase that had signatures from another document taped over it and copied. We were unable to find an original signed copy of the final resolution.

Finally, the City had approximately \$11.5 million in expenditures that did not have an associated purchase order. Most of the largest items are for construction contractors.

Cause. This condition appears to be the result of City not implementing proper internal controls.

Effect. As a result of this condition, the City is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation. We recommend that the City implement procedures over purchasing that requires all requisitions, purchase orders and contracts be approved before a purchase is made or work commences. Additionally, the City should require and retain a purchase order for all payments being made.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-013 - Suspension and Debarment

Finding Type. Material Weakness in Internal Controls over Compliance (Procurement, Suspension and Debarment).

Programs. Drinking Water State Revolving Fund Cluster; U.S. Environmental Protection Agency; Passed through Michigan Department of the Environment, Great Lakes, and Energy; CFDA Number 66.468; All Award Numbers.

Criteria. The Uniform Guidance requires the City to determine if a vendor is suspended or debarred before entering into a contract.

Condition. The City was unable to provide documentation to support its consideration of suspension and debarment requirements for all 11 vendors in our selection.

Cause. Management has indicated that the City is checking suspension and debarment, but does not have the proper internal controls in place to ensure that documentation of the verification is retained in accordance with federal requirements.

Effect. Documentation was not available for 11 contracts selected for testing, which exposes the City to an increased risk that future noncompliance could occur and not be prevented or detected by the City's internal controls.

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, and the vendors in question were not suspended or debarred.

Recommendation. We recommend that the City implement necessary internal controls to ensure documentation of its compliance with the requirements of the Uniform Guidance is maintained.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-014 - Reporting (repeat comment)

Finding Type. Material Noncompliance/Material Weakness in Internal Controls over Compliance (Reporting).

Programs. Medicaid Cluster; U.S. Department of Health and Human Services; CFDA Number 93.778; All Award Numbers.

Criteria. Per the City's agreements with the State, the following reports are required to be submitted:

- i. Work Progress Reports - Quarterly
- ii. Fiscal Questionnaire - Annually
- iii. Obligation Report - Annually
- iv. Final Financial Status Report - Annually

Condition. The City was unable to provide documentation that any of the above reports were submitted, as required. Either the reports were not submitted, or evidence of their submission was not retained.

Cause. This condition appears to be the result of miscommunication within various City departments as to what reports need to be submitted and who is responsible.

Effect. As a result of this condition, the City did not comply with the provisions of its Medicaid cluster grant agreements, and is exposed to an increased risk of having future costs disallowed.

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.

Recommendation. We recommend that the City implement policies, procedures and internal controls to ensure that all required reports are submitted and evidence of the submission retained.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-015 - Grant Accounting and Draw Requests

Finding Type. Immaterial Noncompliance/Material Weakness in Internal Controls over Compliance (Reporting).

Programs:

- i. Medicaid Cluster; U.S. Department of Health and Human Services; CFDA Number 93.778; All Award Numbers.
- ii. Drinking Water State Revolving Fund Cluster; U.S. Environmental Protection Agency; Passed through Michigan Department of the Environment, Great Lakes, and Energy; CFDA Number 66.468; All Award Numbers.

Criteria. 2 CFR 200.302(a) states, "Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award."

Condition. We selected 15 grant draws for testing (a single draw request includes both federal programs), and noted 10 instances in which the signed draw requests provided were not able to be reconciled to the general ledger. None of the differences were significant to the programs, however, reconciling the draws to the general ledger was difficult and required additional audit work. Additionally, we noted three instances in which signed draw requests were not available at the end of the audit and approximately \$834,000 in expenditures that were not on any requests as of the date of this report, which is almost nine months after year end.

Cause. This condition appears to be the result of a lack of internal controls at the City which would require management to agree each draw request to the general ledger prior to submitting it to the granting agency for reimbursement and to verify that draw requests are done timely. This is important for cash flow and for accurate reporting.

Effect. As a result of this condition, the City is at increased risk that reporting submitted to the State is not accurate.

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.

Recommendation. We recommend that the City implement policies, procedures and internal controls to ensure that all reports are completed timely, approved appropriately and agree to its accounting records.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-016 - Subrecipient Monitoring Activities

Finding Type. Immaterial Noncompliance/Significant Deficiency in Internal Controls over Compliance (Subrecipient Monitoring).

Programs. HOME Investment Partnership Program; U.S. Department of Housing and Urban Development; CFDA Number 14.239; All Award Numbers.

Criteria. A pass-through entity must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.331(d) through (f)), plus any additional procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award.

Condition. We noted during testing that the City utilized “desk audits” as its only method of during-the-award monitoring. While this is an acceptable monitoring activity, the use of this as the only activity should be supported by a formal risk assessment process and associated policies and procedures that dictate what monitoring plan must be followed for specific ranges of subrecipient risk. We did observe that the City has a risk assessment worksheet that classifies subrecipients as low, medium or high risk, but did not find that there was a procedure in place to link the assessed risk to the appropriate monitoring plan.

Cause. This condition appears to be the result of vacancies in the program manager position over the past few fiscal years.

Effect. As a result of this condition, the HOME program at the City is not fully in compliance with requirements related to subrecipient monitoring, and is exposed to an increased risk that its subrecipients may also be out of compliance without the City's knowledge.

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.

Recommendation. We recommend that the City review policies and procedures related to the subrecipient monitoring process to make sure that there is a logical connection between the results of risk assessment activities and the monitoring plan devised for each subrecipient. The City should also consider the applicable compliance requirements related to this program and make sure that your monitoring plan covers all applicable areas.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-017 - Housing Quality Standards (HQS) Inspections

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

Programs. HOME Investment Partnership Program; U.S. Department of Housing and Urban Development; CFDA Number 14.239; All Award Numbers.

Criteria. During the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing) for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than (a) every 3 years for projects containing 1 to 4 units, (b) every 2 years for projects containing 5 to 25 units, and (c) every year for projects containing 26 or more units.

Condition. For certain properties, all of which fall in the 5 to 25 unit range shown in the criteria section, HQS inspections have not been completed since the 2015-16 fiscal year. One property selected for testing is also under review for non-compliance with the required submission of tenant data, staying current on utilities and property taxes, as well as not granting access for HQS inspections.

Cause. This condition appears to be the result of delays in processing HQS inspections due to vacancies in the program manager and City inspector positions, as well as a legal challenge to the City's rental inspection process.

Effect. As a result of this condition, the HOME program at the City is not in compliance with requirements related to Housing Quality Inspections, and is exposed to an increased risk that housing units may fail to comply with property standards.

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.

Recommendation. We recommend that the City take the necessary steps to, either internally or through outsourcing, bring all properties in compliance with HQS inspection requirements. We further recommend that the City review policies and procedures related to this process to make sure that such a lapse will not occur in the future.

View of Responsible Officials. Management concurs with this finding.

CITY OF FLINT, MICHIGAN

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-018 - Written Policies Required by the Uniform Grant Guidance (repeat comment)

Finding Type. Immaterial noncompliance

Program. All programs.

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: 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)); 2) Allowability of costs charged to federal programs (§200.302(7)); and 3) Compensation (personnel & benefits) (§200.430-431).

Condition. Although the City has processes in place to cover these areas, there are no formal written policies covering payments, allowability of costs and compensation in accordance with 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 have been questioned as a result of this finding.

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

View of Responsible Officials. Management concurs with this finding.



CITY OF FLINT, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2019

Finding 2018-001 - Material Weakness - Capital Asset Reconciliations

Capital assets were not reconciled at the start of fieldwork and several subsequent adjustments were necessary after client schedules were provided. This matter was repeated as finding 2019-005.

Finding 2018-002 - Significant Deficiency and Noncompliance - Special Tests - Loan Requirements

For two of two loans selected for testing, there was no support retained to provide evidence that the minimum loan documentation was retained for signed bank turn down letters demonstrating that credit was not otherwise available. This matter has been adequately resolved.

2018-003 - Significant Deficiency and Noncompliance - Reporting

The SF-425 was not filed and various elements of the programmatic report could not be supported. This matter was repeated as finding 2019-014.

2018-004 - Significant Deficiency and Noncompliance - Uniform Guidance Policies and Procedures

The City has not updated all of its federal policies and procedures to be completely in compliance with Uniform Guidance. Compliance requirements may include some or all of the following: cash management, conflict of interest, payroll and federal timekeeping, financial management systems, payments, allowable costs, period of performance, matching or cost sharing, program income, procurement, equipment and real property, supplies, copyrights, subawards to debarred and suspended parties, monitoring and reporting program performance, financial reporting, retention and access requirements for records. This matter was repeated as finding 2019-018.

