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# City of Swartz Creek, Michigan

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**June 30, 2022**

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Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

**Independent Auditor's Report**

To the City Council  
City of Swartz Creek, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, Michigan (the "City") as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated October 6, 2022, which contained an unmodified opinion 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. We have not performed any procedures with respect to the audited financial statements subsequent to October 6, 2022.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Plante & Moran, PLLC*

October 6, 2022

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*

**Independent Auditor's Report**

To Management and the City Council  
City of Swartz Creek, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Swartz Creek, Michigan (the "City") as of and for the year ended June 30, 2022 and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 6, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2022-001 to be a material weakness.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**The City's Response to the Finding**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

To Management and the City Council  
City of Swartz Creek, Michigan

**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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

October 6, 2022

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance  
Required by the Uniform Guidance

**Independent Auditor's Report**

To the City Council  
City of Swartz Creek, Michigan

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited the City of Swartz Creek, Michigan's (the "City") compliance with the types of compliance requirements identified as subject to audit in the Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City's major federal program for the year ended June 30, 2022. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2022.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

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

***Responsibilities of Management for Compliance***

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

To the City Council  
City of Swartz Creek, Michigan

### ***Auditor's Responsibilities for the Audit of Compliance***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

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

### **Report on 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 a 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 *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

To the City Council  
City of Swartz Creek, Michigan

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.

*Plante & Moran, PLLC*

October 6, 2022

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

Federal Agency/Pass-through Agency/Program Title	Assistance Listing Number	Pass-through Entity Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
U.S. Department of Agriculture -				
Community Facilities Loans and Grants Cluster:				
Community Facilities Loans & Grants	10.766	N/A	\$ -	\$ 1,085,507
Community Facilities Loans & Grants - LOAN (Note 3)	10.766	N/A	-	2,890,000
Total U.S. Department of Agriculture - Community Facilities Loans and Grants Cluster			-	3,975,507
U.S. Department of Transportation -				
Passed through Michigan Department of Transportation - Highway Planning and Construction Cluster -				
State Transportation Improvement Program	20.205	N/A	-	54,091
U.S. Department of Housing and Urban Development:				
Passed through Genesee County, Michigan - CDBG Entitlement Grants Cluster - COVID-19 - Community Development Block Grant CV Program				
	14.218	B-20-UW-26-0001	-	14,934
Passed through Genesee County, Michigan - Community Development Block Grants/Entitlement Grants Program				
	14.228	B-20-UC-26-0001	-	1,850
Total U.S. Department of Housing and Urban Development			-	16,784
U.S. Department of the Treasury -				
Passed through Michigan Department of Treasury - Coronavirus Relief Fund - COVID-19 - Coronavirus Relief Local Government Grants Program				
	21.027	N/A	-	29,875
Total expenditures of federal awards			<u>\$ -</u>	<u>\$ 4,076,257</u>

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Swartz Creek, Michigan (the "City") under programs of the federal government for the year ended June 30, 2022. 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* (the "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.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported in the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement except for expenditures related to ALN 21.027, Coronavirus Relief Fund (CRF). CRF does not apply the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, but rather applies the U.S. Department of the Treasury's guidance and/or U.S. Department of Health and Human Services' guidance and frequently asked questions, as outlined in the Compliance Supplement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The pass-through entity identifying numbers are presented where available.

The City of Swartz Creek, Michigan has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

**Note 3 - Loans Balances**

Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Existing loans are included because there are continuing compliance requirements. The balances of loans outstanding at June 30, 2022 consist of the following:

Federal Program	ALN	Loan Balances
Community Facilities Loans and Grants Program	10.766	\$ 2,839,000

Schedule of Findings and Questioned Costs

Year Ended June 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified
Internal control over financial reporting:
• Material weakness(es) identified? [X] Yes [ ] No
• Significant deficiency(ies) identified that are not considered to be material weaknesses? [ ] Yes [X] None reported
Noncompliance material to financial statements noted? [ ] Yes [X] None reported

Federal Awards

Internal control over major programs:
• Material weakness(es) identified? [ ] Yes [X] No
• Significant deficiency(ies) identified that are not considered to be material weaknesses? [ ] Yes [X] None reported
Type of auditor's report issued on compliance for major programs: Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? [ ] Yes [X] No
Identification of major programs:

Table with 2 columns: ALN Number, Name of Federal Program or Cluster. Row 1: 10.766, Community Facilities Loans and Grants Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000
Auditee qualified as low-risk auditee? [ ] Yes [X] No

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2022

Section II - Financial Statement Audit Findings

Reference Number	Finding
2022-001	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - Contributed capital assets should be recognized in the City's general ledger in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 prior to the start of the audit.</p> <p><b>Condition</b> - Contributed capital assets were not recognized by the City at the time of contribution of the revenue.</p> <p><b>Context</b> - A journal entry totaling approximately \$1.8 million was recorded as part of the audit to adjust MDOT-funded capital assets and related capital contribution revenue for the state- and federal-funded portions of the City's capital projects. The entries related to the state administered portions of these grants.</p> <p><b>Cause</b> - Although the City has processes and controls in place surrounding capitalizing capital outlay expenditures incurred by the City, those processes did not ensure that the state- and federal-funded portion of certain MDOT projects were correctly reported at June 30, 2022.</p> <p><b>Effect</b> - Journal entries were required in order for the financial statements to accurately report the contributed assets. Not properly recording these journal entries could lead to materially inaccurate financial reporting.</p> <p><b>Recommendation</b> - The City should expand procedures and review processes to ensure that the proper capital asset activity is recorded prior to the start of the audit.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The City continues its goal to present the auditors with the City's financial statements, including all necessary adjustments to capital assets related to MDOT projects. Procedures have been put in place, and we are confident that they will provide accurate and timely financial data prior to the start of the audit.</p>

Section III - Federal Program Audit Findings

Reference Number	Finding	Questioned Costs
<b>Current Year</b>	None	