
City of Swartz Creek, Michigan

Federal Awards Supplemental Information
June 30, 2023

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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 City of Swartz Creek, Michigan (the "City") as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated October 17, 2023, 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 17, 2023.

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 basic financial statements as a whole.

Plante & Moran, PLLC

October 17, 2023

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 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 City of Swartz Creek, Michigan (the "City") as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 17, 2023.

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. 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2023-001 and 2023-002, that we consider to be material weaknesses.

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 Responses to the Findings

Government Auditing Standards require the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

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 17, 2023

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 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 each of the City's major federal programs for the year ended June 30, 2023. The City's major federal programs are 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 each of the major federal programs for the year ended June 30, 2023.

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 programs.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2023-003 to be a material weakness. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention of 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, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed above, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

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

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the internal control over compliance finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on it.

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 17, 2023

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

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 and Grants	10.766		\$ -	\$ 635,193
Community Facilities Loans and Grants - LOAN (Note 3)	10.766		-	<u>2,839,000</u>
Total U.S. Department of Agriculture - Community Facilities Loans and Grants Cluster			-	3,474,193
U.S. Department of Transportation -				
Passed through Michigan Department of Transportation - Highway Planning and Construction Cluster -				
State Transportation Improvement Program	20.205	N/A	-	12,083
U.S. Department of Housing and Urban Development -				
Passed through Genesee County, Michigan - CDBG Entitlement Grants Cluster - Community Development Block Grants/Entitlement Grants Program				
	14.218	B-20-UC-26-0001	-	2,101
U.S. Department of the Treasury:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds				
Passed through Genesee County, Michigan -	21.027		-	409,052
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	-	<u>263,705</u>
Total U.S. Department of the Treasury			-	<u>672,757</u>
Total expenditures of federal awards			<u>\$ -</u>	<u>\$ 4,161,134</u>

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of City of Swartz Creek, Michigan (the "City") under programs of the federal government for the year ended June 30, 2023. 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. The pass-through entity identifying numbers are presented where available.

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 - Loan 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 of expenditures of federal awards. Existing loans are included because there are continuing compliance requirements. The balances of loans outstanding at June 30, 2023 consist of the following:

<u>Federal Program</u>	<u>ALN</u>	<u>Loan Balances</u>
Community Facilities Loans and Grants Program	10.766	\$ 2,787,000

Schedule of Findings and Questioned Costs

Year Ended June 30, 2023

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? X Yes 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)? X Yes No

Identification of major programs:

Assistance Listing Number	Name of Federal Program or Cluster
10.766	Community Facilities Loans and Grants Cluster
21.027	Coronavirus State and Local Fiscal Recovery Funds

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, 2023

Section II - Financial Statement Audit Findings

Reference Number	Finding
2023-001	<p data-bbox="362 531 771 556">Finding Type - Material weakness</p> <p data-bbox="362 581 1481 669">Criteria - Nonexchange grant revenue should be recognized in the City's general ledger when grant expenditures are incurred in accordance with Governmental Accounting Standards Board (GASB) Statement No. 33 prior to the start of the audit.</p> <p data-bbox="362 695 1481 751">Condition - Federal grant revenue was not recognized by the City at the time of the associated grant expenditures being incurred.</p> <p data-bbox="362 777 1481 890">Context - In fiscal year 2022, grant revenue should have been recorded related to ARPA dollars that were spent in that fiscal year. However, they were recognized as revenue in fiscal year 2023 when the bills were paid for a total of \$136,295. The prior year was not restated, as it was not material to the General Fund.</p> <p data-bbox="362 915 1481 1003">Cause - Although the City has processes and controls in place surrounding recognizing grant revenue earned by the City, these processes did not ensure that the entirety of federal grant expenditures that were incurred as of June 30, 2022 were recorded as federal grant revenue.</p> <p data-bbox="362 1029 1481 1142">Effect - Grant revenue is overstated in the current year to account for revenue that should have been reported in the prior year. Not properly recording these journal entries could lead to materially inaccurate financial reporting. However, at the end of fiscal year 2023, fund balance is properly stated.</p> <p data-bbox="362 1167 1481 1224">Recommendation - The City should expand procedures and review processes to ensure that the proper grant revenue recognition is recorded prior to the start of the audit.</p> <p data-bbox="362 1249 1481 1302">Views of Responsible Officials and Planned Corrective Actions - The City will implement additional supervisory review of revenue recording in the general ledger.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2023

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2023-002	<p>Finding Type - Material weakness</p> <p>Criteria - Cash receipts should be recorded in the City's general ledger in the period in which the cash is receipted, including any offset to previously recorded receivables.</p> <p>Condition - Cash receipts that did not relate to a bank reconciling item were recognized in the City's general ledger in a period prior to the actual cash receipt.</p> <p>Context - In July 2023, there was approximately \$65,000 of cash receipts for state-shared revenue that related to the year ended June 30, 2023. The City had already recorded a receivable and revenue for this amount in the general ledger, and the receipt should have been recorded as a reduction of receivables subsequent to year end. However, the amount was recognized as cash and additional revenue posted back to June 30, 2023 and resulted in an audit-identified journal entry to correct the error.</p> <p>Cause - Although the City has processes and controls in place surrounding recognizing receivables and intergovernmental revenue earned by the City, these processes did not ensure that the receipt of these moneys subsequent to year end were recorded as a reduction of the receivable at that time.</p> <p>Effect - The current year cash balance and intergovernmental revenue was overstated by approximately \$65,000 prior to the audit-identified adjustment. Not properly recording these journal entries could lead to materially inaccurate financial reporting. However, at the end of fiscal year 2023, amounts are properly stated, as the City posted the audit-identified adjustment.</p> <p>Recommendation - The City should expand procedures and review processes to ensure that transactions are recorded in the proper period when received.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City will implement additional supervisory review of journal entries prepared.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2023

Section III - Federal Program Audit Findings

Reference Number	Finding
2023-003	<p>Assistance Listing Number, Federal Agency, and Program Name - 21.027, U.S. Department of the Treasury, Coronavirus State and Local Fiscal Recovery Funds</p> <p>Federal Award Identification Number and Year - N/A</p> <p>Pass-through Entity - Genesee County, Michigan</p> <p>Finding Type - Material weakness</p> <p>Repeat Finding - No</p> <p>Criteria - Per 2 CFR 200.508(b), an auditee must properly prepare the schedule of expenditures of federal awards (SEFA).</p> <p>Per 2 CFR 200.510(b), the SEFA for the period covered by the auditee's financial statements must include the total federal awards expended as determined in accordance with 2 CFR 200.502, which describes the basis for determining federal awards expenses.</p> <p>Condition - The SEFA for the year ended June 30, 2023 was not accurately prepared, as it originally included expenditures that were improperly excluded from the SEFA for the year ended June 30, 2022.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - Required revisions were identified during the audit to ensure that the schedule of expenditures of federal awards was accurately stated. These revisions related to \$136,295 of federal awards expended during the year ended June 30, 2022 that were not reported on the SEFA until the year ended June 30, 2023. These expenditures related to ALN 21.027 (Coronavirus State and Local Fiscal Recovery Funds). This amount did not impact the program type or major program determination for the year ended June 30, 2022.</p> <p>Cause and Effect - Internal control procedures relative to the identification of federal expenditures to be reported on the SEFA did not operate effectively. This resulted in the City's schedule of expenditures of federal awards for the prior year being understated and the amounts included in the current year expenditures of federal awards prior to audit-identified revisions. The amounts did not impact the program type or major program determination for the year ended June 30, 2022.</p> <p>Recommendation - The City should expand procedures and review processes to ensure the proper expenditures are reported on the schedule of expenditures of federal awards.</p> <p>Views of Responsible Officials and Corrective Action Plan - The City will implement additional supervisory review of expenditures included on the SEFA.</p>