

City of Rochester
Hills, Michigan



Year Ended
December 31, 2023

Single Audit Act
Compliance

Rehmann

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CITY OF ROCHESTER HILLS, MICHIGAN

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

April 26, 2024

Honorable Mayor and City Commission
City of Rochester Hills, 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 Rochester Hills, Michigan** (the "City"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated April 26, 2024, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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CITY OF ROCHESTER HILLS, MICHIGAN

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Housing and Urban Development				
Community Development Block Grants/Entitlement Grants Cluster:				
2020 Community Development Block Grant	14.218	OAK	B-20-MC-26-0002	\$ 3,942
2021 Community Development Block Grant	14.218	OAK	B-21-MC-26-0002	30,347
2022 Community Development Block Grant	14.218	OAK	B-22-MC-26-0002	<u>69,689</u>
Total U.S. Department of Housing and Urban Development				<u>103,978</u>
U.S. Department of the Interior				
Outdoor Recreation Acquisition, Development, and Planning	15.916	MDNR	26-01838	<u>108,516</u>
U.S. Department of Transportation				
Highway Planning and Construction:				
Transportation Alternatives Program	20.205	MDOT	2021-044.01	290,768
Transportation Alternatives Program	20.205	SEMCOG	2021-044.02	<u>339,230</u>
Total U.S. Department of Transportation				<u>629,998</u>
U.S. Department of Treasury				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) -				
American Rescue Plan Act - CSLFRF	21.027	Direct	n/a	<u>6,146,595</u>
Office of National Drug Control Policy				
High Intensity Drug Trafficking Areas Program	95.001	OAK	2023	<u>5,700</u>
U.S. Department of Homeland Security				
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	Direct	EMW-2018-FH-00166	<u>35,614</u>
Total Expenditures of Federal Awards				<u>\$ 7,030,401</u>

See notes to schedule of expenditures of federal awards.

CITY OF ROCHESTER HILLS, 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 Rochester Hills, Michigan (the "City") under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance or other applicable guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

2. 10% DE MINIMIS COST RATE

For purposes of charging indirect costs to federal awards, the City has elected to use the de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. RECONCILIATION TO BASIC FINANCIAL STATEMENTS

The following schedule reconciles federal sources reported in the financial statements to the expenditures reported on the schedule:

Federal revenues as reported in the financial statements	\$ 6,358,341
Capital contributions	629,998
Unavailable revenue recognized in subsequent periods	<u>42,062</u>
Expenditures per schedule	<u><u>\$ 7,030,401</u></u>

CITY OF ROCHESTER HILLS, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

4. PASS-THROUGH AGENCIES

The City receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDNR	Michigan Department of Natural Resources
MDOT	Michigan Department of Transportation
OAK	County of Oakland, Michigan
SEMCOG	Southeastern Michigan Council of Governments



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

April 26, 2024

Honorable Mayor and City Commission
City of Rochester Hills, 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 Rochester Hills, Michigan** (the "City"), as of and for the year ended December 31, 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 April 26, 2024.

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 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as item 2023-001 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*.

City of Rochester Hills, Michigan's Response to Findings

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.

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.

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

April 26, 2024

Honorable Mayor and City Commission
City of Rochester Hills, Michigan

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the compliance of the **City of Rochester Hills, Michigan** (the "City") with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2023. The City's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on the 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* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Independent Auditors' 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 the 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.

Independent Auditors' 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 the 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 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 Independent Auditors' 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.

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.

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CITY OF ROCHESTER HILLS, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2023

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted	<u> </u> yes	<u> X </u> no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 yes X no

Identification of major programs:

Assistance Listing

<u>Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of report</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds	Unmodified

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 ROCHESTER HILLS, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-001 - Restatement of Net Position/Beginning Fund Balance for Revenue Recognition

Finding Type. Material Weakness in Internal Controls over Financial Reporting

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

Condition. During our audit, we identified and proposed a material adjustment (which was approved and posted by management) to adjust the City's general ledger to the appropriate balances.

Cause. This condition was the result of a manual calculation for unearned revenue which incorrectly deferred permit revenue as unearned based on building department data related to project completion both in the current and previous periods. Under GASB codification I.1600.104, "Revenue from exchange transactions generally should be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured. Accordingly, revenues from exchange transactions should generally be accounted for at the time a transaction is completed, with appropriate provision for uncollectible accounts." As such, internal controls did not detect all adjustments necessary to properly record year-end balances and recognize revenue during the year.

Effect. As a result of this condition, the City's accounting records were initially misstated as follows:

- Beginning net position/fund balance of governmental activities and the general fund was increased by \$2,067,251 to correct the effect of unearned revenue recognition on beginning net position/fund balance.
- Revenue for licenses and permits in the general fund was decreased by \$268,208 to correct the effect of unearned revenue recognition in the current fiscal year.
- Unearned revenue decreased by \$1,799,043 to correct the balance of unearned revenue deferred in error at the end of the current fiscal year.

Recommendation. For the current year, no further action is required as the adjustment has been posted and management has identified the correction in process and procedure necessary to correct the issue. In future periods, we recommend that management implement procedures to ensure that revenue recognition principles are appropriately followed for exchange transactions.

View of Responsible Officials. Management agrees with the prior period adjustment to correct the recognition of revenue for permits (including building, mechanical, electrical, plumbing, and fire permits). The City has updated their internal policy for revenue recognition related to these transactions and it has been applied appropriately for the year ended December 31, 2023. The Accounting department will review the recognition of revenue as part of their year-end procedures in preparation for the audit to assure future compliance.

CITY OF ROCHESTER HILLS, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2023

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



CITY OF ROCHESTER HILLS, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2023

None reported.

