

CITY OF KALAMAZOO, MICHIGAN

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(Federal Awards)**

YEAR ENDED DECEMBER 31, 2021



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

Honorable Mayor and
Members of the City Commission
City of Kalamazoo, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Kalamazoo, Michigan's (the City) compliance 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 each of the City's major federal programs for the year ended December 31, 2021. 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 of Kalamazoo, Michigan, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

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; 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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Kalamazoo 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 of Kalamazoo'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 of Kalamazoo's federal programs.

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 of Kalamazoo'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 generally accepted auditing standards, *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 of Kalamazoo's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 of Kalamazoo'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 of Kalamazoo'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 of Kalamazoo'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.

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.

Maney Costeiran PC

June 30, 2022

**CITY OF KALAMAZOO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2021**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct programs				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants ^{(a)(b)}	14.218			
Program Year 2017-18		N/A	\$ 79,903	\$ 79,903
Program Year 2018-19		N/A	33,065	33,065
Program Year 2019-20		N/A	590,222	590,222
Program Year 2020-21		N/A	379,350	379,350
Program Year 2021-22		N/A	5,977	5,977
General Program Administration		N/A	-	312,335
Program Delivery		N/A	-	176,247
Total CDBG - Entitlement Grants Cluster			<u>1,088,517</u>	<u>1,577,099</u>
Home Investment Partnerships Program	14.239			
CDBG Home Administration		N/A	-	14,964
Program Year 2018-19		N/A	4,244	4,244
Program Year 2019-20		N/A	118,000	118,000
Program Year 2020-21		N/A	44,466	44,466
Total Home Investment Partnerships Program			<u>166,710</u>	<u>181,674</u>
HUD Lead Hazard Reduction Demonstration Grant Program	14.905	N/A	-	310,613
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>1,255,227</u>	<u>2,069,386</u>
U.S. DEPARTMENT OF THE INTERIOR				
Passed through Michigan State Housing Development Authority				
Historic Preservation Fund Grants-In-Aid	15.904	CG17-435A	-	55,226

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF KALAMAZOO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2021

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF JUSTICE				
Direct programs				
Coronavirus Emergency Supplemental Funding Program COVID-19 Coronavirus supplemental funding	16.034	N/A	\$ -	\$ 26,306
Bulletproof Vest Partnership Program 2021	16.607	N/A	-	25,918
Public Safety Partnership and Community Policing Grants 2018-2020	16.710	N/A	-	340,279
Edward Byrne Memorial Justice Assistance Grant Program Program Year 2019	16.738	N/A		20,908
Program Year 2019		N/A	-	52,537
Total Edward Byrne Memorial Justice Assistance Grant Program			-	73,445
TOTAL U.S. DEPARTMENT OF JUSTICE			-	465,948
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through Michigan Department of State Police Highway Safety Cluster National Priority Safety Programs ^(c)	20.616	PS-19-05	-	1,211
U.S. DEPARTMENT OF TREASURY				
Direct program				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	-	30,000

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF KALAMAZOO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
YEAR ENDED DECEMBER 31, 2021

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Drinking Water State Revolving Fund Cluster Passed through Michigan Department of Environment, Great Lakes, and Energy Capitalization Grants for Drinking Water State Revolving Funds ^(d)	66.468	F97548720	\$ -	\$ 18,593
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct program Staffing for Adequate Fire and Emergency Response 2018-2020	97.083	N/A	-	(69,233)
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,255,227</u>	<u>\$ 2,571,131</u>

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF KALAMAZOO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Kalamazoo, Michigan, and is presented on the modified accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note 4.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. 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. The City has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Denotes program tested as a “major program”.
- (b) Denotes programs required to be clustered by the United States Department of Housing and Urban Development.
- (c) Denotes programs required to be clustered by the United States Department of Transportation.
- (d) Denotes programs required to be clustered by the United States Environmental Protection Agency.

CITY OF KALAMAZOO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 4 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the intergovernmental revenues reported in the December 31, 2021, basic financial statements to the expenditures of the City administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Inter- governmental Revenue</u>	<u>Adjustments: State/Local Revenue</u>	<u>Federal Award Expenditures</u>
PRIMARY GOVERNMENT			
GENERAL FUND	<u>\$ 15,603,315</u>	<u>\$ (15,603,315)</u>	<u>\$ -</u>
SPECIAL REVENUE FUNDS			
Neighborhood and Community Development	1,758,773	-	1,758,773
Grants and Donations	847,261	(53,496)	793,765
Other programs	<u>11,738,223</u>	<u>(11,738,223)</u>	<u>-</u>
Total Special Revenue Funds	<u>14,344,257</u>	<u>(11,791,719)</u>	<u>2,552,538</u>
CAPITAL PROJECTS FUNDS	<u>761,549</u>	<u>(761,549)</u>	<u>-</u>
ENTERPRISE FUNDS			
Water	<u>118,137</u>	<u>(99,544)</u>	<u>18,593</u>
	<u>\$ 30,827,258</u>	<u>\$ (28,256,127)</u>	<u>\$ 2,571,131</u>



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**INDEPENDENT AUDITOR'S 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***

Honorable Mayor and
Members of the City Commission
City of Kalamazoo, 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 Kalamazoo, Michigan (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2022. Our report includes a reference to other auditors who audited the financial statements of the City of Kalamazoo Downtown Development Authority and the City of Kalamazoo Downtown Economic Growth Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-002 to be a significant deficiency.

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 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*.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Kalamazoo, Michigan's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City of Kalamazoo, Michigan'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 the responses.

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 entity'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.

Manes Costeiron PC

June 30, 2022

**CITY OF KALAMAZOO
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED DECEMBER 31, 2021**

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?	___X___ Yes ___ ___ None reported
Noncompliance material to financial statements noted?	___ ___ Yes ___X___ No

Federal Awards

Internal control over major programs:	
➤ Material weakness(es) identified?	___ ___ Yes ___X___ No
➤ Significant deficiency(ies) identified?	___ ___ 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 2 CFR 200.516(a)?	___ ___ Yes ___X___ No

Identification of major programs:

_____ Assistance Listing Number(s) _____

14.218

_____ Name of Federal Program or Cluster _____

Community Development Block Grants/Entitlement Grants

**CITY OF KALAMAZOO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

Section I - Summary of Auditor's Results (concluded)

Federal Awards (continued)

Dollar threshold used to distinguish between Type A
and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 X Yes No

Section II - Financial Statement Findings

2021-001 PRIOR PERIOD ADJUSTMENTS

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

Criteria: Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, where applicable, including the recording of all appropriate journal entries so that the trial balances, from which the audited financial statements are prepared, reflect amounts that are in conformity with U.S. generally accepted accounting principles.

Condition: During the year, the City discovered unrecorded notes receivable. Payments were being receipted as current year revenue and the asset was not reflected on the balance sheet or statement of net position. While the City recorded the notes receivable prior to year-end, previously issued Annual Comprehensive Financial Reports were materially misstated.

Cause: Internal controls did not detect all adjustments necessary to properly record year-end balances in the prior year.

Effect: The City's notes receivable, fund balance, and net position needed to be restated by \$1,725,802 for governmental activities and by \$528,910 for the aggregate discretely presented component units (Brownfield Redevelopment Authority).

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

View of Responsible Officials: Management concurs with this finding and implemented procedures to improve the tracking and monitoring of this error as soon as the issue was identified.

**CITY OF KALAMAZOO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
YEAR ENDED DECEMBER 31, 2021**

Section II - Financial Statement Findings (concluded)

2021-002 BANK RECONCILIATIONS

Finding Type: Significant Deficiency in Internal Control over Financial Reporting.

Criteria: The reconciliation process is an important part of the City's internal control and accounting procedures. The purpose of reconciliations is to ensure that general ledger account balances are supported by underlying transaction detail or third-party information. They also provide an important internal control, in that any differences identified between the underlying detail and an account balance through the reconciliation process may be indicative of an erroneous entry having been posted or inappropriate activity within the account. Bank reconciliation records should be updated and reviewed by the City for completeness and conformity to generally accepted accounting principles (GAAP) in a timely manner.

Condition: Bank reconciliations were not always completed in a timely manner during the year. The December 2021 bank reconciliations for the City's primary operating cash accounts were completed in April 2022.

Cause: A combination of the implementation of new payroll software, volume of the workload, and the pandemic-related staffing shortages caused the delay in completing bank reconciliations.

Effect: Without timely reconciliations and review procedures, there is an increased risk of misstatement of assets or errors that might go undetected.

Recommendation: All bank reconciliations should be completed in a timely manner (monthly), reviewed, and retained for audit purposes.

View of Responsible Officials: Management concurs with this finding and acknowledges the importance of timely bank reconciliations. The target date for the completion of all bank reconciliations has always been to complete the reconciliation within one month following the statement date. While staff performed reconciliation procedures throughout the year, unforeseen delays with the implementation of our payroll system and staffing change over delayed the ability to resolve reconciling differences and reconcile all accounts timely in 2021. Management strongly believes this in an anomaly of circumstances and bank reconciliations will be completed timely by July 30, 2022.

Section III - Federal Award Findings and Questioned Costs

None noted.



Department of Management Services

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Corrective Action Plan for the Year Ended December 31, 2021

FINDING 2021-001 PRIOR PERIOD ADJUSTMENTS

Responsible Personnel: Steve Vicenzi, CFO

The City of Kalamazoo's Management Services Department has identified the following corrective actions to address the weakness in tracking and monitoring the City's notes receivables issued under various community and economic development programs:

- The Accounting Division is monitoring the approval of notes receivable by the City Commission and has added the recording of new notes receivable in the month end closing procedures checklist. In addition, review of community and economic development transactions will be performed quarterly to ensure activity associated with new notes has been properly recorded.
- The Treasury Division will distribute monthly reports of the collections and outstanding billed balances of notes receivable to Accounting and responsible departments. The Accounting division will reconcile this report to the general ledger.

This corrective action will be fully implemented by July 30, 2022.

FINDING 2021-002 BANK RECONCILIATIONS

Responsible Personnel: Steve Vicenzi, CFO

The City of Kalamazoo's Management Services acknowledges the importance of timely bank reconciliations and has identified the following corrective actions to ensure timely bank reconciliations are in place:

- The Accounting Division is caught up on delayed reconciliations in 2022.
- Management will include the accounting staff in future software implementations that have an effect on accounting records. Particularly, the accounting staff assigned to completing City bank reconciliations will be involved in future software implementations that have an impact on cash account journal entries.
- Management Services has implemented stronger performance metric tracking which includes monitoring the completion date of bank reconciliations.

This corrective action will be fully implemented by July 30, 2022.

**CITY OF KALAMAZOO
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2021**

FINDINGS/NONCOMPLIANCE

Significant Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to the Basic Financial Statements.

No prior audit findings noted.

Findings Related to Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with the Uniform Guidance.

No prior audit findings noted.