

City of Battle Creek, Michigan

Year Ended
June 30, 2023

Single Audit Act
Compliance

Rehmann

CITY OF BATTLE CREEK, MICHIGAN

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

December 22, 2023

Honorable Mayor and
Members of the City Commission
City of Battle Creek, 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 Battle 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 December 22, 2023, 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Rehmann Loborn LLC



CITY OF BATTLE CREEK, MICHIGAN

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number	Total Subawards	Federal Expenditures
U.S. Department of Housing and Urban Development					
Community Development Block Grants/Entitlement Grants Cluster:					
Community Development Block Grant 2017/2018	14.218	Direct	B-17-MC-26-0002	\$ -	\$ 66,104
Community Development Block Grant 2018/2019	14.218	Direct	B-18-MC-26-0002	-	5,525
Community Development Block Grant 2020/2021	14.218	Direct	B-20-MC-26-0002	-	31,187
COVID-19 - Community Development Block Grant 2020/2021 CARES Act	14.218	Direct	B-20-MW-26-0002	-	389,285
Community Development Block Grant 2021/2022	14.218	Direct	B-21-MC-26-0002	-	514,717
Community Development Block Grant 2022/2023	14.218	Direct	B-22-MC-26-0002	-	549,910
Total Community Development Block Grants/Entitlement Grants Cluster				-	1,556,728
Home Investment Partnership Program:					
Program year 2018/2019	14.239	Direct	M-18-MC-26-0203	-	88,641
Program year 2019/2020	14.239	Direct	M-19-MC-26-0203	-	195,921
Program year 2020/2021	14.239	Direct	M-20-MC-26-0203	-	41,920
Program year 2021/2022	14.239	Direct	M-21-MC-26-0203	-	22,244
COVID-19 - American Rescue Plan Act Program Year 2021/2022	14.239	Direct	M-21-MP-26-0203	-	77,461
				-	426,187
Public Housing Capital Fund - Public and Indian Housing Drug Elimination	14.872	BCHC	-n/a-	-	45,000
Lead Hazard Reduction Demonstration Program - HUD Lead Hazard Control Grant	14.905	Direct	MILHB0761-20	84,463	317,767
Total U.S. Department of Housing and Urban Development				84,463	2,345,682
U.S. Department of Justice					
Crime Victim Assistance/Discretionary Grants -					
2019 Crime Victim Assistance/Discretionary Grant	16.582	Direct	2019-V3-GX-0056	5,026	5,026
Violence Against Women Formula Grants:					
2022 STOP Violence Against Women Grant	16.588	MDHHS	E20222415-00	8,656	40,413
2023 STOP Violence Against Women Grant	16.588	MDHHS	E20232197-00	12,190	101,566
				20,846	141,979
Public Safety Partnership and Community Policing Grants:					
2020 Community Oriented Policing Services Hiring Program	16.710	Direct	2020-UM-WX-0395	-	166,773
2021 Community Oriented Policing Services Hiring Program	16.710	Direct	15JCOPS-21-GG-03456-UHPX	-	103,979
				-	270,752
Edward Byrne Memorial Justice Assistance Grant Program:					
2019 Justice Assistance Grant	16.738	Direct	2019-DJ-BX-0931	-	21,132
2020 Justice Assistance Grant	16.738	Direct	2020-DJ-BX-0493	3,901	3,901
2021 Justice Assistance Grant	16.738	Direct	15 BPJA-21-GG-01572-JAGX	14,893	14,893
2022 Justice Assistance Grant	16.738	Direct	15 BPJA-22-GG-02421-JAGX	7,768	7,768
				26,562	47,694
Criminal and Juvenile Justice and Mental Health Collaboration Program:					
2019 Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	Direct	2019-MO-BX-0039	57,980	57,980
2022 BJA FY 22 Connect and Protect - Law Enforcement Behavioral Health Response Program	16.745	Direct	15PBJA-22-GG-02990-MENT	-	27,600
				57,980	85,580
Total U.S. Department of Justice				110,414	551,031

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CITY OF BATTLE CREEK, MICHIGAN

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number	Total Subawards	Federal Expenditures
U.S. Department of Transportation					
Federal Transit Cluster:					
Federal Transit Formula Grants:					
2021 Act 5339 Capital Projects	20.507	Direct	MI-2021-015-00	\$ -	\$ 1,530,222
COVID-19 - American Rescue Plan Act 5307 Operating Assistance	20.507	Direct	MI-2021-014-00	-	350,603
				-	1,880,825
Buses & Bus Facilities Program:					
2016 Section 5339 Buses & Bus Facilities Formula Program	20.526	Direct	MI-2016-020-04	-	75,171
2021 Section 5339 Buses & Bus Facilities Formula Program	20.526	Direct	MI-2021-008-00	-	176,305
				-	251,476
Total Federal Transit Cluster				-	2,132,301
Transit Services Programs Cluster:					
Enhanced Mobility of Seniors and Individuals with Disabilities:					
2022 Section 5310 New Freedom Program	20.513	MDOT	MI-2021-055-01	-	63,082
2023 Section 5310 New Freedom Program	20.513	MDOT	MI-2021-055-00	-	51,485
Total Transit Services Programs Cluster				-	114,567
Total U.S. Department of Transportation				-	2,246,868
U.S. Department of Treasury					
COVID-19 - State and Local Fiscal Recovery Funds (CSLFRF)	21.027	Direct	-n/a-	-	6,313,067
U.S. Environmental Protection Agency					
Drinking Water State Revolving Fund Cluster -					
Capitalization Grants for Drinking Water State Revolving Funds -					
Program year 2022/2023	66.468	EGLE	FS975487-22	-	20,131
U.S. Election Assistance Commission					
2018 HAVA Election Security Grants -					
Election Security Grant	90.404	MDOS	-n/a-	-	25,191
U.S. Department of Health and Human Services					
Children's Health Insurance Program:					
Program year 2021/2022	93.767	MDHHS	E20221737-00	301,636	657,120
Program year 2022/2023	93.767	MDHHS	E20232652-00	426,594	925,835
Total U.S. Department of Health and Human Services				728,230	1,582,955
U.S. Department of Homeland Security					
Emergency Management Performance Grants -					
Program year 2022/2023	97.042	MSP	EMC-2022-EP-00001	-	15,230
Total Expenditures of Federal Awards				\$ 923,107	\$ 13,100,155

concluded.

See notes to schedule of expenditures of federal awards.

CITY OF BATTLE CREEK, 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 Battle Creek, Michigan** (the "City") under programs of the federal government for the year ended June 30, 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 accrual and modified accrual basis of accounting based on fund type, 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.

The City's reporting entity is defined in Note 1 of the City's annual comprehensive financial report.

2. 10% DE MINIMIS COST RATE

For purposes of charging indirect costs to federal awards, the City has elected not to use the 10% de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

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

Pass-through Agency Abbreviation	Pass-through Agency Name
BCHC	Battle Creek Housing Commission
EGLE	Michigan Department of Energy, Great Lakes, and Environment
MDHHS	Michigan Department of Health and Human Services
MDOS	Michigan Department of State
MDOT	Michigan Department of Transportation
MSP	Michigan State Police

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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**

December 22, 2023

Honorable Mayor and
Members of the City Commission
City of Battle Creek, 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 Battle 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 December 22, 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.

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. However, as described in the accompanying schedule of findings and questioned costs, we did identify 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 2023-001 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 2023-002 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 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 Battle Creek's Response to Findings

Government Auditing Standards requires 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 auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.



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

December 22, 2023

Honorable Mayor and
Members of the City Commission
City of Battle Creek, Michigan

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the compliance of the **City of Battle Creek, 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 June 30, 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 June 30, 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.

A handwritten signature in black ink that reads "Rehmann Lohman LLC". The signature is written in a cursive, flowing style.

CITY OF BATTLE CREEK, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? 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

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:

<u>Assistance Listing 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? X yes no

CITY OF BATTLE CREEK, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-001 - Material Audit Adjustments

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 material adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances.

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

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

- Restricted cash and transfers out were understated by approximately \$100,000, unearned revenue was understated by approximately \$897,000, and the federal intergovernmental revenue was overstated by approximately \$897,000 in the ARPA special revenue fund.
- The market value adjustment for the pooled cash and cash equivalents was not posted for all funds with a pooled cash balance at year-end, resulting in the pooled cash and cash equivalents, and the related unrestricted investment earnings being overstated by approximately \$832,000.

Recommendation. For the current year, no further action is required as the adjustments have been posted. In future periods, we recommend that management implement procedures to ensure that all general ledger accounts are appropriately reconciled and adjusted at year end.

View of Responsible Officials. The misstatements in the ARPA special revenue fund reflect a transfer out of investment earnings that were recognized during the year ended June 30, 2023. This transfer was improperly included in expense when recognizing the corresponding federal intergovernmental revenue at the end of the fiscal year. Reconciliation of amounts recognized as federal intergovernmental revenue in the ARPA special revenue fund is now part of the year-end review process by management. Additionally, the market value adjustment for pooled cash and cash equivalents was a result of a statement change by the City's primary banking partner as well as the transfer of investments to a new investment manager. Now that management has received clarification on the correct presentation, this will not be an issue going forward.

Responsible Officials. Revenue Services Director

Estimated Completion Date. June 30, 2024

CITY OF BATTLE CREEK, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-002 - Internal Controls over Inventory

Finding Type. Significant Deficiency in Internal Controls over Financial Reporting

Criteria. Management is responsible for the design, implementation, and maintenance of internal control policies and procedures that ensure the preparation and fair presentation of financial statements that are free from material statement, whether due to fraud or error. This internal control system should include reconciliation of subsidiary accounting records for inventory to physical counts as part of the annual inventory observation. In addition, proper documentation should be maintained to support the inventory balances and the price at which they are recorded.

Condition. We performed an inventory observation where we observed significant discrepancies between the count and the City's ledger. The City then corrected its initial counts and the ledger. An inventory observation was then reperformed with no significant discrepancies identified. Additionally, we identified multiple items on the inventory listings for fleet, wastewater, and water inventory for which proper support was unable to be located and/or provided. We also identified that in several test cases, the inventory prices were not updated properly in accordance with the City's policies and procedures.

Cause. As a result of turnover within these departments, there was confusion regarding the count process and proper use of the system and not all counts were properly reviewed prior to input in the system. Additionally, there are several old items on the inventory listings for which documentation no longer exists to support the balance.

Effect. As the result of these conditions, the City's inventory counts were initially misstated within the water and wastewater fund by amounts significant to the financial statements.

Recommendation. We recommend that the City review their process for periodic inventory counts and regularly reconcile the perpetual inventory system to periodic physical counts in order to ensure the accuracy of inventory records. Additionally, we recommend that the City update its written policies and procedures for performing the inventory count to ensure that all individuals responsible for taking part in the inventory count process are properly trained in performing the procedures and that proper review is completed prior to input of the numbers in the system. Finally, we recommend that the City complete an evaluation of the prices recorded for each item, retain proper support, and periodically review the inventory listings to verify each item is properly valued in accordance with the City's policies and procedures.

View of Responsible Officials. Management is aware of the continued challenges surrounding inventory counts and pricing. Since the initial inventory observation, management has developed a comprehensive process which resulted in more accurate inventory counts across the organization. The updated process has included a more thorough review of roles and responsibilities of the staff responsible for counts. A written policy is being developed that will include recommendations for removing or excluding items from inventory that fall outside of the record retention period.

Responsible Officials. Revenue Services Director

Estimated Completion Date. June 30, 2024

CITY OF BATTLE CREEK, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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CITY OF BATTLE CREEK, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2023

No matters were reported.

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