

**City of Battle Creek, Michigan**

**Year Ended  
June 30, 2024**

**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 23, 2024

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, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 23, 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. 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 Lohman LLC*



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## CITY OF BATTLE CREEK, MICHIGAN

### Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2024

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number	Total Subawards	Federal Expenditures
<b>U.S. Department of Defense</b>					
Military Construction - National Guard	12.400	Direct	W912JB-22-2-2101	\$ -	\$ 532,000
<b>U.S. Department of Housing and Urban Development</b>					
Community Development Block Grants/Entitlement Grants Cluster:					
COVID-19 - Community Development Block Grant 2020/2021 CARES Act	14.218	Direct	B-20-MW-26-0002	3,608	3,608
Community Development Block Grant 2021/2022	14.218	Direct	B-21-MC-26-0002	-	132,724
Community Development Block Grant 2022/2023	14.218	Direct	B-22-MC-26-0002	37,896	505,052
Community Development Block Grant 2023/2024	14.218	Direct	B-23-MC-26-0002	60,000	1,243,651
Total Community Development Block Grants/Entitlement Grants Cluster				101,504	1,885,035
Home Investment Partnership Program:					
Program year 2018/2019	14.239	Direct	M-18-MC-26-0203	5,643	79,667
Program year 2020/2021	14.239	Direct	M-20-MC-26-0203	13,474	4,382
Program year 2021/2022	14.239	Direct	M-21-MC-26-0203	-	9,075
Program year 2022/2023	14.239	Direct	M-22-MC-26-0203	-	4,896
Program year 2023/2024	14.239	Direct	M-23-MC-26-0203	-	35,684
COVID-19 - American Rescue Plan Act Program Year 2021/2022	14.239	Direct	M-21-MP-26-0203	297,757	332,332
				316,874	466,036
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	77,180	1,176,078
<b>Total U.S. Department of Housing and Urban Development</b>				495,558	3,572,149
<b>U.S. Department of Justice</b>					
Crime Victim Assistance/Discretionary Grants -					
2019 Crime Victim Assistance/Discretionary Grant	16.582	Direct	2019-V3-GX-0056	18,604	29,104
Violence Against Women Formula Grants -					
2023 STOP Violence Against Women Grant	16.588	MDHHS	E20232197-00	-	35,584
Bulletproof Vest Partnership Program:					
Program Year 2021	16.607	Direct	-n/a-	-	6,744
Program Year 2022	16.607	Direct	-n/a-	-	12,289
Program Year 2023	16.607	Direct	-n/a-	-	3,430
				-	22,463
Public Safety Partnership and Community Policing Grants:					
2020 Community Oriented Policing Services Hiring Program	16.710	Direct	2020-UM-WX-0395	-	282,414
2021 Community Oriented Policing Services Hiring Program	16.710	Direct	15JCOPS-21-GG-03456-UHPX	-	169,959
				-	452,373
Edward Byrne Memorial Justice Assistance Grant Program -					
2022 Justice Assistance Grant	16.738	Direct	15 BPJA-22-GG-02421-JAGX	10,782	10,782
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	14,046	14,046
2022 BJA FY 22 Connect and Protect -					
Law Enforcement Behavioral Health Response Program	16.745	Direct	15PBJA-22-GG-02990-MENT	-	80,188
				14,046	94,234
<b>Total U.S. Department of Justice</b>				43,432	644,540

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## CITY OF BATTLE CREEK, MICHIGAN

### Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2024

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number	Total Subawards	Federal Expenditures
<b>U.S. Department of Transportation</b>					
Airport Improvement Program -					
COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs -					
Federal Aviation Administration - American Rescue Plan Act	20.106	Direct	3-26-SBGP-132-2022	\$ -	\$ 59,000
Federal Transit Cluster:					
Federal Transit Formula Grants:					
FY 2021 Section 5307 - Operating Assistance & 5339 Capital Projects	20.507	Direct	MI-2021-015-00	-	1,889,727
FY 2023 Section 5307 - Local Federal Transit Formula Grants & Surface Transportation Program	20.507	Direct	MI-2023-024-00	-	45,733
				-	1,935,460
Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs:					
FY 2016 Section 5339 - Local Bus & Bus Facilities Formula Program	20.526	Direct	MI-2016-020-04	-	3,381
FY 2021, 2022, & 2023 Section 5339 - Local Bus & Bus Facilities Formula Program	20.526	Direct	MI-2021-015-02	-	6,683
				-	10,064
Total Federal Transit Cluster				-	1,945,524
Transit Services Programs Cluster -					
Enhanced Mobility of Seniors and Individuals with Disabilities:					
2023 Section 5310 New Freedom Program	20.513	MDOT	MI-2021-055-01	-	(5,355)
2023 Section 5310 New Freedom Program	20.513	MDOT	MI-2021-055-01	-	14,444
2024 Section 5310 New Freedom Program	20.513	MDOT	MI-2023-037-00	-	48,594
Total Transit Services Programs Cluster				-	57,683
<b>Total U.S. Department of Transportation</b>				-	2,062,207
<b>U.S. Department of Treasury</b>					
COVID-19 - State and Local Fiscal Recovery Funds (CSLRF)	21.027	Direct	-n/a-	-	6,471,523
<b>U.S. Environmental Protection Agency</b>					
Drinking Water State Revolving Fund Cluster -					
Capitalization Grants for Drinking Water State Revolving Funds:					
Program year 2022/2023	66.468	EGLE	FS975487-22	-	7,130
Program year 2023/2024	66.468	EGLE	4D01E03285	-	19,116
Total U.S. Environmental Protection Agency				-	26,246
<b>U.S. Department of Energy</b>					
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	Direct	IA-0000000884	-	29,111
<b>U.S. Department of Health and Human Services</b>					
Children's Health Insurance Program:					
Program year 2022/2023	93.767	MDHHS	E20232652-00	192,514	457,958
Program year 2023/2024	93.767	MDHHS	E20242894-00	496,806	1,266,407
Total U.S. Department of Health and Human Services				689,320	1,724,365

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## **CITY OF BATTLE CREEK, MICHIGAN**

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2024

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number	Total Subawards	Federal Expenditures
<b>U.S. Department of Homeland Security</b>					
Emergency Management Performance Grants:					
Program year 2022/2023	97.042	MSP	EMC-2023-EP-00005	\$ -	\$ 39,365
Program year 2023/2024	97.042	MSP	EMC-2024-EP-05005	<u>      </u> -	<u>      </u> 46,826
				<u>      </u> -	<u>      </u> 86,191
Assistance to Firefighters Grant -					
2022 Fire Prevention & Safety Program	97.044	Direct	EMW-2022-FP-00567	<u>      </u> -	<u>      </u> 39,143
<b>Total U.S. Department of Homeland Security</b>					
<b>Total Expenditures of Federal Awards</b>					
				\$ 1,228,310	\$ 15,187,475

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, 2024. 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 Environment, Great Lakes, and Energy
MDHHS	Michigan Department of Health and Human Services
MDOT	Michigan Department of Transportation
MSP	Michigan State Police



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 23, 2024

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, 2024, 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 23, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2024-001 that we consider to be a significant deficiency.



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## **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 response to the 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 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 EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

December 23, 2024

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

### Report on Compliance for Each Major Federal Program

#### *Opinion on Each 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 each of the City's major federal programs for the year ended June 30, 2024. The City's major federal programs are 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 each of its major federal programs for the year ended June 30, 2024.

#### *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* (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 each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.



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### ***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 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.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2024-002, -003, -004, and -005. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's responses to the noncompliance findings identified in our compliance audit 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 compliance and, accordingly, we express no opinion on them.

### **Report on Internal Control Over Compliance**

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-002, -003, -004, and -005 to be significant deficiencies.

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.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit 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 the response.

### ***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 "Lehmann Johnson LLC". The signature is fluid and cursive, with "Lehmann" and "Johnson" connected by a single stroke, and "LLC" in a smaller, separate area.

# CITY OF BATTLE CREEK, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?        yes X 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? X yes        none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes        no

Identification of major programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
14.218	Community Development Block Grants/ Entitlement Grants Cluster	Unmodified
14.905	Lead Hazard Reduction Demonstration Grant Program	Unmodified
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 BATTLE CREEK, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

### SECTION II – FINANCIAL STATEMENT FINDINGS

#### 2024-001 - Internal Controls over Preparation of Other Postemployment Benefit (OPEB) Census Data

**Finding Type.** Significant Deficiency in Internal Controls over Financial Reporting

**Criteria.** Management is responsible for the accurate compilation of census data necessary for actuarial professionals to process and complete a valuation necessary for the proper reporting of OPEB information in the annual financial statements.

**Condition.** The OPEB census data submitted to the City's actuary initially included 202 active employees from the AFSCME, ATU, BCSA, and SEIU union groups that were not eligible for OPEB participation. Additionally, when comparing the 2024 and 2022 OPEB census data, there were 5 retirees that were improperly excluded from the 2022 census data. These errors were discovered by the auditors, and were not detected by the City's internal control procedures, thus resulting in the 2024 OPEB valuation having to be reissued by the actuary.

**Cause.** The condition above appears to be caused by a lack of detailed review of the census data before submission to the City's actuaries.

**Effect.** As a result of this condition, the total net OPEB liability was initially overstated by approximately \$1,360,000 and the total OPEB expense was initially understated by approximately \$267,000.

**Recommendation.** We recommend the City implement an independent review and approval process over pension and OPEB plan census data. This review should take place before the data is sent to the actuary and evidence of this review should be maintained.

**View of Responsible Officials.** The City acknowledges there was an issue with the data initially provided to the actuary. The Finance Department will work with the Human Resources Department to ensure data provided to the actuary is accurate and complete in the future. A comprehensive review of the census data and employee eligibility will take place between now and the next actuarial valuation.

**Responsible Officials.** Revenue Services Director and Human Resources Director

**Estimated Completion Date.** June 30, 2025

# CITY OF BATTLE CREEK, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### 2024-002 – Federal Funding Accountability and Transparency Act (FFATA) Reporting

**Finding Type.** Immaterial Noncompliance; Significant Deficiency in Internal Controls over Compliance (Reporting).

##### Federal program(s)

*U.S. Department of Housing and Urban Development:*

- Community Development Block Grants/Entitlement Grants (ALN 14.218); Direct award; All project numbers.
- Lead Hazard Reduction Grant Program (ALN 14.905); Direct award; All project numbers.

**Criteria.** Under the requirements of the Federal Funding Accountability and Transparency Act, direct recipients of grants or cooperative agreements are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). Direct recipients must report key data elements by registering through the FSRS and reporting subaward data through that system. Direct recipients that are awarded a federal grant are required to file a FFATA sub-award report by the end of the month following the month in which the prime awardee awards any sub-grant equal to or greater than \$30,000.

**Condition.** The City did not submit the required key data elements through the FSRS reporting system as required by the Uniform Guidance.

**Cause.** The City does not have the proper internal controls in place to ensure that FFATA reporting is completed promptly in accordance with the requirements of the Uniform Guidance.

**Effect.** The City did not follow federal requirements for FFATA reporting through the FSRS and as a result has not completed the appropriate sub-award reporting that is required for direct recipients.

**Questioned Costs.** No costs have been questioned as a result of this finding inasmuch as no unallowable costs were identified.

**Recommendation.** We recommend that the City review its procedures for FFATA reporting through FSRS and ensure that all key data elements are reported timely moving forward.

**View of Responsible Officials.** The City acknowledges reporting has lapsed in this system. New procedures have been put in place to ensure reporting occurs in a timely manner and there is oversight of the reporting throughout the year. These procedures include additional questions on internal documents regarding potential subrecipients, as well as monitoring Commission agendas, and regular reporting reminders.

**Responsible Officials.** Revenue Services Director

**Estimated Completion Date.** June 30, 2025

# CITY OF BATTLE CREEK, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

#### 2024-003 – Timely Reporting

**Finding Type.** Immaterial Noncompliance; Significant Deficiency in Internal Controls over Compliance (Reporting).

##### Federal program(s)

*U.S. Department of Housing and Urban Development -*

- Lead Hazard Reduction Grant Program (ALN 14.905); Direct award; All project numbers.

**Criteria.** Recipients of federal awards are required to report periodically on financial information, as specified by the 2 CFR 200 Compliance Supplement or grant agreement. Reported information should be supported by the entity's accounting records and subjected to an independent review and approval prior to submission in order to detect and correct any errors or omissions. Quarterly SF-425 reports are due no later than January 30, April 30, July 31, and October 31 for the preceding quarter. Additionally, HUD requires recipients that provide HUD-program benefits to individuals or families to report data on race, ethnicity and other data annually by using form HUD-27061, which must be submitted annually by January 10.

**Condition.** During our audit procedures over the City's reporting process, we noted that the City did not submit the quarterly SF-425 reports for fiscal year by the deadlines outlined in the grant agreements. Additionally, it was noted that the City did not complete and submit the required race and ethnic data for fiscal year 2024 using form HUD-27061.

**Cause.** This condition was caused by the lack of understanding by program staff of the specific requirements of reporting on forms SF-425 and HUD-27061.

**Effect.** As a result of this condition, the City did not comply fully with the reporting requirements under this federal award. In addition, the City was exposed to an increased risk that the reports filed could contain errors and not be detected and corrected on a timely basis.

**Questioned Costs.** No costs have been questioned as a result of this finding inasmuch as no unallowable costs were identified.

**Recommendation.** We recommend that the City establish procedures to ensure that the HUD-27061 form is completed. We also recommend that all required reports are filed by their deadlines.

**View of Responsible Officials.** The City acknowledges the SF-425 reports for the Lead Hazard Reduction Grant Program were not timely submitted. Finance and Community Development will work together to strengthen financial reporting so that it is timely moving forward. Staff working on this grant are new to their positions since the last time the program was audited, and are committed to reviewing policies and procedures to make sure reporting is completed appropriately. Community Development will work with HUD to clarify the use of form HUD-27061.

**Responsible Officials.** Revenue Services Director and Community Services Director

**Estimated Completion Date.** June 30, 2025

# CITY OF BATTLE CREEK, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

#### 2024-004 – Inaccurate Reporting/Lack of Independent Review and Approval of Reporting

**Finding Type.** Immaterial Noncompliance; Significant Deficiency in Internal Controls over Compliance (Reporting).

##### Federal program(s)

*U.S. Department of Housing and Urban Development -*

- Community Development Block Grants/Entitlement Grants (ALN 14.218); Direct award; All project numbers.

**Criteria.** Recipients of federal awards are required to report periodically on financial information, as specified by the 2 CFR 200 Compliance Supplement or grant agreement. Reported information should be supported by the entity's accounting records and subjected to an independent review and approval prior to submission in order to detect and correct any errors or omissions. Additionally, the PR-26 financial summary reports are submitted as part of the Consolidated Annual Performance Evaluation Report (CAPER). This report should include all expenditures for the program year, including accrued expenditures.

**Condition.** During our audit procedures over the City's annual PR-26 reports and the annual CAPER, we noted that none of the reports were subject to an independent review and approval prior to submission in order to detect and correct potential errors or omissions. We also noted that the CAPER was submitted as required, but contained financial data that did not agree to the City's underlying accounting records for the reporting period as required. The City's annual PR-26 report did not agree to the annual CAPER by approximately \$435,000 and needed to be resubmitted to HUD.

**Cause.** This condition appears to have been caused by a lack of complete knowledge of applicable federal compliance requirements and employee turnover in the economic development department.

**Effect.** As a result of this condition, the City did not fully comply with the requirements of the grant and filed reports that contained financial errors.

**Questioned Costs.** No costs have been questioned as a result of this finding as the reports did not serve as a basis for cost-reimbursement.

**Recommendation.** We recommend that reports required to be submitted to the oversight agency that contain financial information be reviewed and approved by the finance department to ensure accuracy of the financial information.

**View of Responsible Officials.** The City acknowledges the issues noted with reporting in the Community Development Block Grant Program. Finance and Community Development will work together to strengthen programmatic and financial reporting so that it is both timely and accurate. Staff working on this grant are new to their positions since the last time the program was audited, and are committed to reviewing policies and procedures to make sure reporting is completed appropriately.

**Responsible Officials.** Revenue Services Director and Community Services Director

**Estimated Completion Date.** June 30, 2025

# CITY OF BATTLE CREEK, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

#### 2024-005 – Blood Lead Testing

**Finding Type.** Immaterial Noncompliance; Significant Deficiency in Internal Controls over Compliance (Special Tests and Provisions).

**Federal program(s)**

*U.S. Department of Housing and Urban Development -*

- Lead Hazard Reduction Grant Program (ALN 14.905); Direct award; All project numbers.

**Criteria.** The U.S. Department of Housing and Urban Development (HUD) requires that applicants should request testing of each child under the age of six years who reside in a housing unit under contract to receive lead hazard control work, or document that a child has been tested for blood levels within the six months preceding the lead control work, unless it is documented that the child's parent or legal guardian chooses not to have the child tested.

**Condition.** During our testing of applicant files, the City did not require blood testing for each child under the age of six who resided in the housing unit for one out of the five files selected for testing. It was also noted that the child's parent or legal guardian did not decline to have the child's blood tested.

**Cause.** Management does not appear to have sufficient internal control procedures in place to properly implement all of HUD's program requirements.

**Effect.** As a result of this condition, the City did not follow HUD guidelines to ensure that blood lead testing was performed in accordance with the grant requirements.

**Questioned Costs.** No costs have been questioned as a result of this finding inasmuch as no unallowable costs were identified.

**Recommendation.** We recommend that the City implement policies and procedures to ensure that blood lead testing is complete for all applicants with children under the age of six who reside in the housing unit.

**View of Responsible Officials.** The City acknowledges the issue noted with Blood Lead Testing. The lack of testing occurred prior to current management taking over the program. All blood lead testing under current management is believed to be in compliance with program guidelines. Since January, 2024 the program has only served families with known lead poisoning with children 6 or under.

**Responsible Officials.** Community Services Director

**Estimated Completion Date.** June 30, 2025



# CITY OF BATTLE CREEK, MICHIGAN

## ■ **Summary Schedule of Prior Audit Findings**

For the Year Ended June 30, 2024

### **2023-001 - Material Audit Adjustments**

During our audit, the auditors identified and proposed material adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances. 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. 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. This finding has been resolved in the current year.

### **2023-002 - Internal Controls over Inventory**

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. 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. 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. This finding has been resolved in the current year.

