

**CITY OF MARSHALL,
MICHIGAN**

SINGLE AUDIT

For the Year Ended June 30, 2008



REHMANN ROBSON

Certified Public Accountants

**CITY OF MARSHALL, MICHIGAN
SINGLE AUDIT**

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YEAR ENDED JUNE 30, 2008

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A member of THE REHMANN GROUP



**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 31, 2008

Honorable Mayor and Members
of the City Council
City of Marshall, 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 Marshall, Michigan*, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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.

We noted certain matters that we reported to management of the *City of Marshall, Michigan*, in a separate letter dated December 31, 2008.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing board, management, others within the organization, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

December 31, 2008

Honorable Mayor and Members
of the City Council
City of Marshall, Michigan

Compliance

We have audited the compliance of the *City of Marshall, Michigan* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the *City of Marshall, Michigan* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the *City of Marshall, Michigan* is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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 Marshall, Michigan*, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 31, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the governing board, management, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



City of Marshall
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development		
Direct program:		
Supportive Housing Program - Section 8 Housing Assistance	14.195	\$ 295,071
Pass-through Michigan Economic Development Corporation Community Development Block Grant	14.228	<u>166,463</u>
Total U.S. Department of Housing and Urban Development		<u>461,534</u>
U.S. Department of Transportation		
Pass-through Michigan Department of Transportation:		
Formula Grants For Other Than Urbanized Areas		
DART-Section 5311 Operating	20.509	200
DART-Section 5311 Operating - Z4	20.509	<u>46,249</u>
Total U.S. Department of Transportation		<u>46,449</u>
U.S. Department of Homeland Security		
Direct program:		
Assistance to Firefighters Grant	97.004	<u>62,188</u>
Total Expenditures of Federal Awards		<u><u>\$ 570,171</u></u>

CITY OF MARSHALL, MICHIGAN

Notes To Schedule Of Expenditures Of Federal Awards

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Marshall, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Marshall reporting entity is defined in Note I of the City's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note I of the City's basic financial statements.

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CITY OF MARSHALL, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

X yes no

Significant deficiency(ies) identified
not considered to be material weaknesses?

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
not considered to be material weaknesses?

yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

yes X no

CITY OF MARSHALL, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.195 14.228	Section 8 - Housing Assistance Community Development Block Grants

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

SECTION II – FINANCIAL STATEMENT FINDINGS

Significant Deficiencies

Finding 2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: Pursuant to SAS 112, *Communicating Internal Control Related Matters Identified in an Audit*, which is first effective for the City for the year ended June 30, 2007, we are required to report on whether the government is able to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with similar governments, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls. This condition and comment is commonplace for governments similar to the City of Marshall

CITY OF MARSHALL, MICHIGAN

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2008-1 – Preparation of Financial Statements in Accordance with GAAP (Concluded)

Cause: Although it has been a historical practice for many years, the most recent procurement process for the independent audit specifically outsourced the financial statement preparation to the external auditor.

Effect: The City relies on its external auditors for assistance with the preparation of the financial statements, which is commonplace among similarly sized governments.

Recommendation: None

View of Responsible Officials: The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Material Weaknesses

Finding 2008-2 – Material Audit Adjustments

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 several material adjustments (which were approved and posted by management) to adjust the City's general ledger to the appropriate balances. These adjustments included recording long-term debt and utility accounts receivables.

Cause: This condition was the direct result of monthly reconciliations not being completed in a timely manner.

Effect: As a result of this condition, the City's accounting records were initially misstated by amounts material to the financial statements.

CITY OF MARSHALL, MICHIGAN

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS (Concluded)

Finding 2008-2 – Material Audit Adjustments (Concluded)

Recommendation: We recommend that the City take the steps deemed necessary to reconcile all general ledgers to subsidiary detail on a monthly basis in order to have a more accurate financial picture throughout the year.

View of Responsible Officials: The City understands that implementing procedures that are adequate to reconcile the general ledger monthly is an important step and will implement the procedure of reconciling general ledger accounts on a regular basis.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – PRIOR YEAR FINDINGS

None.

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