

November 19, 2021

To the City Council  
City of Charlotte, Michigan

We have audited the financial statements of the City of Charlotte, Michigan (the "City") as of and for the year ended June 30, 2021 and have issued our report thereon dated November 19, 2021. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section III - Other Recommendations and Related Information

Section I includes any deficiencies we observed in the City's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the City's accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the City Council of the City of Charlotte, Michigan.

Section III presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the City in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the City's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



William Brickey, CPA

## Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the City as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, 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 opinion 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 significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 following deficiencies in the City's internal control to be material weaknesses:

- **Auditor-proposed Adjustments** - Auditor-identified journal entries were posted in the financial records during the audit to adjust current year activity to be in conformity with generally accepted accounting principles. The entries resulted from a lack of review of balances reported in the City's general ledger. We are happy to assist in adjusting the general ledger but are required to communicate our role in adjusting the accounting records to you. The required entries related to debt, capital assets, cash, expenses, pension deferrals, accounts payable, special assessments, and OPEB, as well as a PAJE for alternative adjustment on MERS investments.
- **Cash Activity** - During our audit, it was identified that there is no signoff on bank reconciliations after they are prepared to signify that a review has occurred. We also identified that bank reconciliations were not performed timely during the year. We recommend that a process be implemented to ensure cash and investment reconciliations are prepared and reviewed on a timely basis to prevent errors and detect any possible misappropriation of funds.
- **Fire Department Cash Activity** - During the prior year audit, we identified a bank account of the Charlotte Volunteer Fire Department (CVFD) that was not recorded by the City of Charlotte, Michigan within the City's general ledger system. The City operated as if the CVFD were a separate legal organization with whom it contracted for fire services; the City paid CVFD quarterly for services rendered. However, the CVFD was not a separate legal organization, and the CVFD has been operating under the City's federal employer identification number (EIN). The disbursements from this bank account were controlled by the CVFD and not the City. In November 2020, CVFD became a separate legal entity and is now operating under its own federal identification number. The bank account discussed above was closed in November 2020, and the cash was transferred to a new bank account under the CVFD's EIN. The following comments describe the deficiencies in the City's internal controls related to this matter for July through November 2020:
  - The City's internal controls should ensure all vendors complete IRS Form W-9 to verify entity information. Paying vendors without documented entity information could result in noncompliance with federal and state tax regulations.

**Section I - Internal Control Related Matters Identified in an Audit  
(Continued)**

- The City's general ledger should be a complete record of the City's financial activity; as such, the City's internal controls should address the completeness of all revenue and expense activity in the accounting records. Excluding activity from the City's accounting records and financial statements could result in a material misstatement or misappropriation of assets, as those assets would not be subject to all the controls at the City.
  
- As discussed above, the City was not involved with the activities of this bank account and did not approve any of the transactions. The City Charter requires all withdrawals of City moneys (expenses) be approved by the City Council. Not approving bank withdrawals and expenses is a violation of the City Charter and could lead to unlawful spending and misappropriation of assets.

## **Section II - Required Communications with Those Charged with Governance**

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated August 17, 2021, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 7, 2021.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements.

During the year ended June 30, 2021, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. GASB Statement No. 84 resulted in the City's other postemployment benefit trust now being recorded in the City's financial statements. There are also certain balances shown in the financial statements related to the City's custodial funds.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were the valuation of the total pension liability and the other postemployment benefits liability recorded in the financial statements. Our audit included an examination of the data provided to the actuary or used in the alternative measurement method and an evaluation of the reasonableness of the assumptions and methodologies used in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

## **Section II - Required Communications with Those Charged with Governance (Continued)**

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The following material misstatements detected as a result of audit procedures were corrected by management. Journal entries were identified to correct debt, capital assets, cash, expenses, pension deferrals, accounts payable, special assessments, and OPEB.

The following misstatement detected as a result of audit procedures were not corrected by management. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Assets of the City's pension system held by MERS were understated due to adjustments in the value of alternative investment held at year end. This adjustment impacts the City's calculation of the net pension liability as follows: decrease the net pension liability \$164,669, increase deferred inflows \$131,735, and decrease pension expense \$32,934.

### ***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated November 19, 2021.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the City's financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated. However, we read the introductory and statistical sections, and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

### **Section III - Other Recommendations and Related Information**

During our audit, we noted areas where we believe there are opportunities for the City to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented below for your consideration:

#### **Payroll Submission**

Payroll information is submitted to MERS for use in pension calculations. Currently, there is no secondary review performed over the payroll information prior to submission. Best practice would be for two individuals to be involved in this activity to prevent the risk of error and inaccurate information being reported.

#### **Other Postemployment Benefits**

The City utilizes a valuation toolkit to calculate the OPEB liability required under GASB 74/75. This toolkit lends itself to errors due to the manual inputs that are necessary. Given the complexity of this calculation, the City should consider having an actuary prepare the calculation.

#### **Legislative and Other Information**

##### ***COVID-19 Resource Center and ARPA***

Throughout the COVID-19 pandemic, Plante & Moran, PLLC's COVID-19 task force of leaders across the firm has monitored, addressed, and provided insight related to the virus and the unique challenges our local governments have faced while continuing to provide essential services to their communities through our COVID-19 resource center, which can be accessed at the following link: <https://www.plantemoran.com/explore-our-thinking/areas-of-focus/covid-19-government-resource-center>. This will continue as our nation emerges from this crisis.

In March 2021, the president signed the American Rescue Plan Act (ARPA) into law, which included federal stimulus funding for state and local governments of all sizes. The largest of all funding streams, the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF), represents a \$350 billion top-line allocation for state and local governments. Funding began to be distributed nationwide in May 2021, although smaller municipalities will need to wait for the funding to pass through their state governments. The U.S. Department of the Treasury recently published the interim final rule (IFR), which establishes a framework for determining the types of programs and services that are eligible uses of the CSLFRF funding.

The COVID-19 resource center is being continuously updated for the latest guidance and strategy related to CSLFRF and will help keep the City running smoothly through our nation's recovery.

Want to receive relevant content directly to your email? Subscribe at <https://www.plantemoran.com/subscribe> where you can customize your subscription preferences based on your specific interests and industry selection.

##### ***Michigan's COVID-19 Updates and Related Grant Programs***

The Michigan Department of Treasury has developed a webpage with numbered letters, memorandums, webinars, and resources regarding COVID-19 updates and related grant programs: [https://www.michigan.gov/treasury/0,4679,7-121-1751\\_98769---,00.html](https://www.michigan.gov/treasury/0,4679,7-121-1751_98769---,00.html).

##### ***Updated Uniform Chart of Accounts***

In April 2017, the State released an updated Uniform Chart of Accounts. Originally, local units of government were expected to comply with the changes beginning with June 30, 2018 year ends. However, the State has extended the deadline for compliance. On April 20, 2020, the State issued a memo that sets an implementation date for fiscal years ending on October 31, 2022 and thereafter. The State has committed to releasing various tools to help local units with implementation, including FAQs and clarification on which accounts should be used when implementing GASB 84. A final release of the chart of accounts was issued in November 2020 and is available at this link: [https://www.michigan.gov/documents/uniformchart\\_24524\\_7.pdf](https://www.michigan.gov/documents/uniformchart_24524_7.pdf). This final version follows various exposure drafts and revisions in order to comply with changing GASB standards and statutory changes and reformats the document to make it more user-friendly. The Treasury will provide alerts for any guidance and resources, and local units can sign up for alerts at this link: [https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp=MITREAS\\_1](https://public.govdelivery.com/accounts/MITREAS/subscriber/new?qsp=MITREAS_1).

## **Section III - Other Recommendations and Related Information (Continued)**

### ***Revenue Sharing***

The fiscal year 2021 governor's budget recommendation includes \$1.4 billion for revenue sharing. Further details of the breakdown of this amount are available at [https://www.michigan.gov/treasury/0,,7-121-1751\\_2197---,00.html](https://www.michigan.gov/treasury/0,,7-121-1751_2197---,00.html).

In order to receive the city, village, and township revenue sharing (CVTRS) payments in FY 2021, qualified local units will once again need to comply with the same best practices as they did last year as follows:

- A citizen's guide to local finances with disclosure of unfunded liabilities
- Performance dashboard
- Debt service report
- Two-year budget projection

### ***2021 Public Sector Webinar Series - Insight to Help You Prepare for What is Next***

Plante & Moran, PLLC is proud to have hosted a six-session CPE-eligible webinar series, [Public Sector Webinar Series](#), in which our experts break down what you need to know about regulatory updates, the impact of COVID-19 funds, and more. The webinar series covered the following topics:

- Charting GASB's course - Available on demand
- Preparing for your single audit: A roadmap for funding compliance - Available on demand
- Navigating the AICPA's revised State and Local Government Client Affiliates independence guidance - Available on demand
- GASB 87: Your advanced implementation questions answered - Available on demand
- 2021 Compliance Supplement and single audit update - Available on demand
- Financial sustainability: A framework to address budgetary and operational challenges - Available on demand

We welcome the City's participation in what we hope are very informative programs.

### ***Cybersecurity and Information Technology Controls***

Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. Because of these attacks, municipalities stand to lose their reputation, the ability to operate efficiently, and proprietary information or assets. Communities potentially can also be subject to financial and legal liabilities. Managing this issue is especially challenging because even a municipality with a highly mature cybersecurity risk management program still has a residual risk that a material cybersecurity breach could occur and not be detected in a timely manner. We understand that the technology department continues to monitor and evaluate this risk, which are critical best practices. Additionally, periodic assessments of the system in order to verify that the control environment is working as intended are key parts of measuring associated business risk. We encourage administration and those charged with governance to work with the technology team on this very important topic. If we can be of assistance in the process, we would be happy to do so.

### **Upcoming Accounting Standards Requiring Preparation**

#### ***GASB Statement No. 87 - Leases***

This new accounting pronouncement will be effective for reporting periods beginning after December 15, 2019 (June 15, 2021 after extension within GASB Statement No. 95). This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

### **Section III - Other Recommendations and Related Information (Continued)**

We recommend beginning to accumulate information now related to all significant lease agreements in order to more efficiently implement this new standard once it becomes effective.

Plante & Moran, PLLC will be providing trainings and other resources to our clients in the coming months to help prepare for the implementation of all these new standards. In the interim, please reach out to your engagement team for assistance in getting started.

#### ***GASB Statement No. 97 - Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans***

Certain aspects of this standard impacting defined contribution pension and OPEB plans and other employee benefit plans were effective immediately in June 2020, but the provisions of this statement related to 457 plans clarifying when a 457 plan should be considered a pension plan or another employee benefit plan to assist in the application of GASB Statement No. 84 are effective for reporting periods beginning after June 15, 2021.

#### ***Significant GASB Proposals Worth Watching***

The GASB is working on three interrelated projects that result in a comprehensive look at financial reporting for state and local governments. Of these three efforts, two are likely to result in significant changes to governmental financial statements in the future.

The Financial Reporting Model is currently in exposure draft stage and is expected to be issued as a final statement next year. While this standard proposes changes to many aspects of the City's financial statements, this proposed standard will most significantly impact the City's governmental fund financial statements.

The Revenue and Expense Recognition project aims to develop a comprehensive accounting and financial reporting model for transactions that result in revenue and expenses. Currently, the GASB has issued a preliminary views document that proposes a new categorization framework that replaces the exchange/nonexchange transaction notion with a four-step process for classifying a transaction. In addition to this new framework, the proposal also addresses recognition and measurement of revenue and expense transactions.

Plante & Moran, PLLC has spent significant time digesting these new proposed standards and recently testified to the GASB about our feedback. We strongly encourage the City to monitor developments with these standards, as the potential impacts are quite broad.