
City of Grand Rapids, Michigan

**Report to the City Commission
June 30, 2020**

Independent Auditor's Report

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
--	-----

Schedule of Findings and Responses	3-4
---	-----

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*

Independent Auditor's Report

To Management and the Honorable Members
of the City Commission
City of Grand Rapids, Michigan

We have audited, 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, 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 Grand Rapids, Michigan (the "City") as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 20, 2020. Our report includes a reference to other auditors who audited the financial statements of the City of Grand Rapids General Retirement System as of and for the year ended June 30, 2020 and the City of Grand Rapids Police and Fire Retirement System as of and for the year ended December 31, 2019, which represent 93 percent, 92 percent, and 91 percent of the assets, net position, and revenue, respectively, of the fiduciary funds. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities above, is based on the report of the other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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 City'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 were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2020-001, that we consider to be a material weakness.

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*.

To Management and the Honorable Members
of the City Commission
City of Grand Rapids, Michigan

The City's Response to the Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style.

November 20, 2020

Schedule of Findings and Responses

Year Ended June 30, 2020

Section I - Financial Statement Audit Finding

Reference Number	Finding
2020-001	<p>Finding Type - Material weakness</p> <p>Criteria - Year-end journal entries should be properly recorded in accordance with generally accepted accounting principles (GAAP) prior to the commencement of the audit.</p> <p>Condition - Year-end journal entries necessary to state the financial statements in accordance with GAAP were identified as part of the audit.</p> <p>Context - The following material year-end journal entries were proposed by the auditors and posted by the City in order to ensure the financial statements were stated in accordance with GAAP:</p> <ul style="list-style-type: none">• An adjustment of approximately \$1.4 million to increase the school tax capture liability owed by the Downtown Development Authority (DDA) to take into account the impact of increased tax capture on the amount owed.• An adjustment of approximately \$4.8 million to increase the estimated income tax refund liability due to the impact of the COVID-19 pandemic. <p>Additionally, prior to the audit, the City identified a material capital asset that was recorded under the incorrect reporting entity when purchased in the early 1990s. As a result, a prior period adjustment to beginning of year net position was reflected in both the Tax Increment Financing Authority (TIFA) and the City's governmental activities to correct the error.</p> <p>In addition to the material year-end journal entries identified above, the following other auditor-identified year-end journal entries were also required to ensure the financial statements were stated in accordance with GAAP: an adjustment to decrease unbilled water and sewer receivables and decrease water and sewer revenue and an adjustment to reduce miscellaneous revenue along with an increase in deferred inflows of resources.</p> <p>Cause - As it relates to the material year-end journal entries, the City had recorded estimates for the DDA school tax capture liability and the income tax refund liability prior to the audit; however, there were auditor-identified adjustments increasing the amount of these estimates. The change in the DDA school tax capture liability was caused by the departure of key personnel responsible for this estimate. The change in the income tax refund liability was caused by the impact of the COVID-19 pandemic on both the timing of income tax receipts and employees' ability to work in the City. The City identified the prior period adjustment to the TIFA and governmental activities capital assets due to a more thorough review process. Other entries were not identified during the City's review process.</p> <p>Effect - If the year-end journal entries identified above had not been recorded, the financial statements would have been materially misstated.</p> <p>Recommendation - The City should continue to work with all applicable departments to ensure their control procedures properly identify and record all year-end journal entries.</p>

Schedule of Findings and Responses (Continued)

Year Ended June 30, 2020

Section I - Financial Statement Audit Finding (Continued)

Reference Number	Finding
2020-001 (Continued)	<p>Views of Responsible Officials and Planned Corrective Actions - The additional adjustment was needed to the DDA estimate after auditor review. Due to personnel changes, the expertise was no longer available, and tax increments had not been properly identified. The job is being filled, and backup will be trained, so this issue should not repeat itself in the future.</p> <p>There was an original estimate for income tax refunds that needed to be adjusted after further review. The deadline for income tax was delayed three months from April 30 to July 30 due to the COVID-19 pandemic. The economic situation considerations were a challenge, changing weekly, and made drastic changes after further data was available. Auditors had already begun their review. This should not be the case in the future. The COVID-19 pandemic caused many changes, and deadlines should be back in place in the future.</p> <p>The capital asset item was found and corrected by the City. We have a better system in place than in the 1990s and maintain better records.</p> <p>The City has noted the other entries that were identified and updated applicable audit schedules to account for these changes.</p>