



Baird, Cotter & Bishop, P.C.

SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS

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www.bcbcpa.com

October 15, 2021

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

To the City Council
City of Ewart, 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 City of Ewart for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 30, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Ewart are described in Note I to the financial statements. No new accounting policies were adopted. The application of existing policies was not changed during 2020-2021. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimate affecting the governmental activities were:

Management's estimates of the useful lives of depreciable capital assets is based on the length of time it is believe that those assets will provide some economic benefit in the future. Management's estimates of the liability of the payout of employee compensated absences are based on expected payout. Management's estimates of unfunded liabilities related to the Municipal Employees' Retirement System of Michigan are based on actuarial valuations. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures 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.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We detected various material misstatements as a result of our audit procedures that were corrected by management. The material adjustments made were a result of converting the entity's records from cash basis to modified accrual basis of accounting and providing client assistance as the client knew the adjustment was necessary but requested our assistance.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 15, 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 Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to 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 to our retention.

During the course of our audit of the basic financial statements of City of Evart for the year ended June 30, 2021, we noted the following items which we feel deserve comment:

Budgetary Accounting

Expenditures in the Library Fund and Fire Fund exceeded appropriated amounts, as well as multiple activities and in total in the General Fund. The City should continue to monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts. The City should adopt a budget for the Fire Fund since it collects and disburses property taxes to the Fire Department. All budgets should also be amended before the end of the current fiscal year.

Budgetary Accounting - Component Unit DDA

Expenditures exceeded appropriated amounts in one line item. The DDA should continue to monitor its budget on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts.

Unrecorded Transactions

It was noted during the audit that the activity for the Local Development Finance Authority (LDFA) was not recorded in the general ledger. The LDFA is now part of the General Fund and all activity during the year should be recorded in a timely manner in the general ledger.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, the Budgetary Comparison Schedule, Schedule of Changes in Employer's Net Pension Liability and Related Ratios for Michigan Employees' Retirement System, and Schedule of Employer Contributions for Michigan Employees' Retirement System, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining financial statements and component unit financial statements which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

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October 15, 2021

INDEPENDENT AUDITOR'S 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

To the City Council
City of Evart, Michigan
Evart, 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 City of Evart, Michigan as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise City of Evart, Michigan's basic financial statements and have issued our report thereon dated October 15, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Evart, Michigan's internal control over financial reporting (internal control) as a basis for designing the 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 of Evart, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Evart, Michigan'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. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

1) *Segregation of Incompatible Duties and Documented Independent Review*

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the government. A key element of internal control is the segregation of duties.

Condition: The government has several accounting functions that are performed by the same individual and are not subject to a documented independent review and approval.

Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities may be occurring on a routine basis, but are not being documented.

Effect: As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented, or detected and corrected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the government's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

Corrective Action Plan: With the status of state funding, the City is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The City and Council will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

2) *Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements*

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the government's management. 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 related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditor 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.

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

Recommendation: Due to the size and minimal activity, we recommend that the government continue to outsource financial statement preparation.

View of Responsible Officials: The government 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 government to outsource this task to its external auditors, and to carefully review the draft financial statements and noted prior to approving them and accepting responsibility for their content and presentation.

Corrective Action Plan: The government will continue to rely on its outside auditors to assist in preparing the GAAP basis financial statements and will evaluate annually for the need to change.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ewart'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 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 the following instance of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*, which is described below:

3) Unfavorable Budget Variances

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the City adopt formal budgets for all applicable funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures. The Act also prohibits the City from appropriating more funds for expenditure than is available through current revenue sources and any accrued surplus or deficit from previous years.

Condition: The City had adopted budget items that were exceeded by actual expenditures by a material amount. The City also did not adopt a budget for the Fire Fund which caused them to be over budget by a material amount.

Cause: The condition was caused by COVID-19 and the trying circumstances resulting from the pandemic, which resulted in challenges in monitoring the adopted budget against actual expenditures and not adopting a budget for the Fire Fund.

Effect: The City was not in compliance with the budgeting act.

Recommendation: The City should continue to monitor expenditures against the adopted budget and make appropriate amendments as needed, as well as adopt budgets for all funds.

View of Responsible Officials: The City will continue to monitor expenditures against adopted budgets to make appropriate amendments as needed and adopt budgets for all funds.

Corrective Action Plan: The City will continue to monitor and amend the budgets as needed to ensure that actual expenditures stay within appropriated amounts, and do so in a timely manner. The Fire Fund was a new fund this year with a tax levy, and not adopting a budget was an oversight. Now that the City is aware of the requirement, they will adopt a Fire Fund budget starting immediately.

City of Evart, Michigan's Response to Findings

City of Evart, Michigan's response to the findings identified in our audit is described above. City of Evart Michigan'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 entity'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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