

December 6, 2023

To the Mayor, City Council, and Management
City of Lathrup Village, Michigan

We have audited the financial statements of the City of Lathrup Village, Michigan ("the City") as of and for the year ended June 30, 2023 and have issued our report thereon dated December 6, 2023. 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

Sections I and II includes information that we are required to communicate to those individuals charged with governance of the City. Section I communicates deficiencies we observed in the City's internal control that we believe are material weaknesses. Section II communicates significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process.

Section III presents recommendations related to internal control, procedures, and other matters noted during our current year audit, as well as updated legislative and informational items that we think will be of interest to you. 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 mayor, 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

Alisha M. Watkins

Alisha Watkins, CPA
Partner

Ashley Frase

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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, 2023, 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:

- **Bank Reconciliations and Segregation of Duties** - A strong part of the City's internal controls in place is the monthly bank reconciliation process. During our audit procedures, we identified that bank reconciliations were not reconciled timely. Without the timely preparation and review of bank reconciliations, there is a risk that misappropriation of assets or financial reporting errors could occur and not be identified and corrected on a timely basis. We recommend that the City reconcile the bank statements to the general ledger monthly within 30 to 45 days after month end.

It was also noted that new vendors can be added by the same individuals who collect cash and are involved in bank reconciliation process. Although the City has tried to put mitigating controls in place, such as an independent review of new vendors added to the system, this is not always done timely, and staff turnover has placed further constraints on the City's ability to effectively segregate incompatible duties and maintain effective mitigating controls.

In addition, the same individual with full administrative and user rights within the general ledger also serves as the network administrator, which creates a risk for the misappropriation of assets or improper adjustments to the financial records to occur.

The lack of effective segregation of duties, coupled with the lack of controls to prevent or detect such errors, significantly heightens the risk of potential misappropriation of assets and/or inaccurate financial reporting to occur and go undetected.

- **Other Postemployment Benefits (OPEB) Trust Fund Reconciliations** - The City did not reconcile the OPEB Trust Fund to the general ledger timely for the year ended June 30, 2023 resulting in an audit adjustment proposed by Plante & Moran, PLLC and recorded by management. Without the timely reconciliation of these quarterly statements to the general ledger, there is a risk that misappropriation of assets or financial reporting errors could occur and not be identified and corrected on a timely basis. We recommend that the City reconcile the OPEB Trust Fund investment statements to the general ledger on a quarterly basis within 30 to 45 days after quarter end.

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

- **Pooled Cash, including Unspent Bond Proceeds, and Interfund Transactions** - During the audit, we identified a deficiency in the controls and processes over the tracking and reporting of bond proceeds activity during the year. While the City accounted for the expenditures in the general ledger subsequent to year end, these expenditures were included in pooled cash spending for each fund throughout the year and were not reconciled or adjusted within the preliminary accounting records as of June 30, 2023. Subsequent to year end, management prepared a reconciliation of the details surrounding the spending and tracking of these dollars within each fund, which resulted in significant interfund adjustments as of June 30, 2023 to ensure this activity was properly recorded, including within the correct funds. We recommend that the City have a process in place for reconciling pooled cash and bond proceeds spending within each fund as it occurs throughout the year, or at least on a more regular basis. Without adequate procedures and controls in place over these periodic reconciliations, there is an increased risk of inaccurate financing reporting and timely tracking of these cash flows.
- **Fund Balance and Net Position Balances** - As part of the audit, we identified that fund balance and net position balances as of the beginning of the 2023 fiscal year (July 1, 2022) did not agree to the ending fund balance and net position amounts in the June 30, 2022 audited financial statements for the General and Water and Sewer funds. We recommend that the City revisit its processes in place for ensuring that the City's general ledger balances agree with the audited financial statements. Without effective procedures and controls in place to ensure beginning amounts agree to prior audited financial statements, there is a risk of inaccurate financial reporting.
- **Accounting for Significant New Transactions** - During the audit, Plante & Moran, PLLC identified adjusting journal entries to account for transactions that, while not common accounting transactions for the City, are significant to the City's financial statements. These adjustments included the following:
 - Grant revenue that has been spent and earned (ARPA for approximately \$154,000 and a state grant of approximately \$100,000), which was corrected by management
 - Two county-shared capital projects for which the City has associated debt based on the agreement, totaling approximately \$1.1 million through June 30, 2023, which were corrected by management
 - Capital project costs that were paid for by the DDA but capitalized by the City, but not recorded as a capital contribution to the City in the accounting records, totaling approximately \$366,000, which is listed as an uncorrected misstatement in Section II of this letter

The accounting for significant new transactions is not always straight-forward; however, we recommend that the City implement procedures and controls to ensure that the accounting for new transactions is considered throughout the year when transactions occur to mitigate the risk of inaccurate financial reporting, including ensuring that the activity is reported in the proper fiscal year and within the correct funds.

- **Receivables and Payables Reconciliation to General Ledger** - During the audit, Plante & Moran, PLLC identified and management recorded adjusting journal entries to account for differences between the City's detailed listing of receivables and payables from the general ledger. This included an adjustment to the water and sewer unbilled receivable of approximately \$25,000 as well as the customer billed receivables of approximately \$64,000. Additionally, there was an adjustment of approximately \$273,000 to record Major Streets and Local Streets fund expenditures that had been incurred prior to June 30, 2023. Without adequate procedures and controls in place to ensure that the general ledger agrees to detailed listings and calculations of receivables and payables, there is a risk of inaccurate financial reporting.

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 9, 2023, 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.

We have noted the following instance of noncompliance with laws and regulations during the course of our audit. The City adopted an original and amended budget for the Major Streets and Local Streets funds with a deficit fund balance at year end. Per Public Act 2 of 1968, the board is prohibited from adopting a budget that causes total expenditures to exceed total revenue, including an available fund balance from the previous year. The City did not incur any actual deficits requiring deficit elimination plans under state law.

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 August 14, 2023.

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. No new accounting policies were adopted, and the application of existing policies was not changed during 2023.

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 estimated annual required contribution, the net pension liability, the net other postemployment benefits liability, and the lease receivable. Management's estimate of the annual required contribution, net pension liability, and net other postemployment benefits liability are based on actuarial methods and assumptions provided through actuarial valuations. Management's estimate of the lease receivable is based on lease agreements in place and assumptions regarding future extension options. 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.

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

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

Difficulties Encountered in Performing the Audit

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

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 as described in Section I of this letter: accrual of expenses incurred but not yet paid into accounts payable, corrections to beginning fund balance, recording of county-shared construction projects and related debt in the Water and Sewer Fund, correction of interfund balances for negative pooled cash as well as unspent bond proceeds, and recording of OPEB Trust Fund activity.

There were also uncorrected misstatements of the financial statements related to a decrease in customer receivables and revenue in the Water and Sewer Fund of \$15,593 and an increase in capital contribution revenue and capital expense of \$366,204 for governmental activities. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. However, uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future period financial statements to be materially misstated.

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 December 6, 2023.

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.

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 for your consideration below, including an update on recommendations presented for your consideration in the prior year:

Update on Prior Year Matters

Water Loss

For several years, as part of the audit, we reported that the City continued to have significant water loss. During our analysis of the City's Water and Sewer fund for the year ended June 30, 2023, water loss was approximately 5.5 percent, a significant decrease from approximately 35 percent for the year ended June 30, 2022. We commend the City on its continued diligence and focus on this matter to identify and resolve the issue that had caused the substantial water loss in the past.

We encourage the City to continue its regular monitoring of water loss to ensure any spikes that may occur can be identified and rectified timely going forward.

Compensated Absences

During the year ended June 30, 2023, the City implemented an automated tracking system for compensated absences through the payroll system in response to the recommendation from the audit for the year ended June 30, 2022. We commend the City for implementing this change to mitigate the risk associated with the prior manual tracking system.

Credit Card Documentation

As part of the audit for the year ended June 30, 2022, we had various recommendations surrounding credit card documentation. For the year ended June 30, 2023 audit, we again selected a sample of credit card transactions and related monthly reconciliations for review. We observed that while the items tested had a form attached to the receipts and credit card statements with the intent to describe the nature of the expense or the business purpose, there were instances when this documentation was vague. We also noted a number of instances of travel for conferences or other trainings that did not have clear documentation regarding the business purpose. Overall, we observed that the City has a process in place over credit card expenditures, including the collection of receipts to support the amounts spent monthly, review/sign-off of the credit card bill by the users, and an additional form attached during fiscal year 2023 to describe the nature of the expense and business purpose, which is a step in the right direction. However, as the additional documentation was lacking in some cases, it did not meet the spirit of documenting the nature of the expense and business purpose consistently. We recommend additional criteria be added to the form to document the nature of the expense and business purpose, including time frame or event the item relates to, to further enhance documentation and procedures in this area.

While performing these procedures, we observed a significant amount of activity related to conference and travel reimbursement; however, there does not appear to be a policy in place that outlines guidance for this activity, which is an area the City may consider further assessing and documenting with clear guidance.

Online Banking Policy

During our review of online banking procedures and controls, we noted that the City currently does not have an online banking policy in place. In order to further strengthen the City's procedures and controls, we recommend that the City consider adopting an online banking policy.

Section III - Other Recommendations and Related Information (Continued)

Current Year Matters

Retiree Personnel Files

During our audit testing of personnel data used in the pension and OPEB calculations, we identified that the data for city retirees who participate in the city's pension and OPEB plans was not supported by personnel file data. While we understand the efficiencies in a transition to electronic personnel and other data, we recommend that the City implement procedures and controls to ensure the accurate updating of these electric records for which these valuations rely on.

Budget Monitoring and Noncompliance with Legal or Contractual Provisions

The City adopted amended budgets for the Major Streets and Local Streets funds with deficit fund balances at year end. Per Public Act 2 of 1968, the City is prohibited from adopting a budget that causes total expenditures to exceed total revenue, including an available fund balance from the previous year. In other words, while the City plan to apply prior fund balance reserves to budget overruns through a council-approved amendment, such amendments cannot result in overall negative fund balance (i.e., deficit). The City did not incur any actual deficits requiring deficit elimination plans under state law; however, we recommend that the City's review and monitoring of the budget throughout the year include beginning fund balance considerations as well as actual expenditures to ensure budget amendments are made and approved by City Council in accordance with Public Act 2 of 1968.

Interfund Balances and Transactions

In addition to the pooled cash interfund deficiency included in Section I of this letter, we noted that the City has significant interfund due to/from balances at June 30, 2023. While some of these balances relate to expenditures as described in Section I of this letter, we noted that there are other balances that have remained for more than one year as well as the Street Improvement Bond Fund balance due from the General Fund in the full amount of the fund's property tax levy collection for fiscal year 2023. We recommend that the City perform a periodic review of interfund balance to ensure that all funds' transactions and cash balances are properly reflected in the general ledger and that these amounts are settled regularly to ensure cash and other activity are reflected in the proper fund timely.

Legislative and Informational Items

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 ARPA and COVID-19 resource center for governments. Following is a link to various ARPA-related articles that we believe will be of interest to you: <https://www.plantemoran.com/explore-our-thinking/search?skip=10&keyword=arpa&type=all&professional=all&practice=all&industry=85a5df97-9c41-4000-86d3-db25835731a6&areaOfFocus=all&daterange=all&sortBy=DateDesc>.

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 (SLFRF), represents a \$350 billion top-line allocation for state and local governments. Funding was provided in two tranches beginning in May 2021, with the second tranche not being released until 12 months after the first payment. Effective April 1, 2022, the U.S. Department of the Treasury published the final rule for determining the types of programs and services that are eligible uses of the SLFRF funding. Overall information about the program, including a frequently asked questions document and an overview of the final rule, is available on the U.S. Department of the Treasury's website at <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments>.

Section III - Other Recommendations and Related Information (Continued)

The ARPA award terms provide that payments from the Fiscal Recovery Funds as a general matter will be subject to the provision of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), including the cost principles and restrictions on general provisions for selected items of cost. The City will need to understand these reforms and may be required to evaluate, document, and monitor internal procedures around compliance, including maintaining certain required policies.

Plante & Moran, PLLC's COVID-19 resource center is being continuously updated for the latest guidance and strategy related to SLFRF 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.

Coronavirus State and Local Fiscal Recovery Funds Alternative Compliance Examination

In April 2022, the Office of Management and Budget amended its compliance rules to allow for a simplified single audit process for municipalities that would not be required to undergo a single audit if it were not for the expenditures of SLFRF. This alternative applies to fiscal year audits beginning after June 30, 2020. SLFRF recipients that expend \$750,000 or more during their fiscal years and meet the following two criteria have the option for their auditor to follow the alternative compliance examination engagement guidance:

1. The recipient's total SLFRF award received directly from the U.S. Department of the Treasury or received as a nonentitlement unit is \$10 million or less.
2. Other federal award funds expended by the recipient (excluding SLFRF award funds) are less than \$750,000 during its fiscal year.

We are happy to assist in evaluating the application of the changes and answer any questions about how the changes impact the City.

Auditor Reporting Standards

The AICPA Auditing Standards Board (ASB) issued several new standards that were recently effective, which significantly changed the independent auditor's report (Statement on Auditing Standards No. 134) and made some changes to certain required audit procedures (Statement on Auditing Standards No. 137). The standards were both first effective for your fiscal year ended June 30, 2022.

Statement on Auditing Standards No. 137 addresses auditors' responsibilities relating to other information included in annual reports. This new standard may increase the scope of audit procedures and may result in some audit work being performed outside of the normal timing. To the extent that the City issues a document meeting the AICPA's definition of an annual report under the standard, additional audit procedures will need to be performed on that separate document before it is issued. It is important that the City continue to communicate to us regarding any new documents meeting the AICPA's definition of an annual report under the standard beyond the recent implementation date. We are happy to discuss these changes with you.

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

Monitoring Lease Activity

GASB Statement No. 87, *Leases*, was effective in fiscal year 2022. Although significant analyses were performed to determine the applicability of the new standard and record any necessary adjustments, we want to stress the importance of implementing ongoing monitoring procedures over lease activity. When the City enters into new leases, existing leases are modified, or other facts and circumstances change, consideration must be given to the impact those changes will have on lease accounting. In order to do so, the City must ensure there is a process in place to identify and appropriately account for new leases or changes to existing leases on an ongoing basis or at least at the end of each year.

Expansion of Police and Fire Special Assessment

Effective March 28, 2023, Public Act 228 of 2022 (an amendment to Act 33, Public Acts of Michigan, 1951, as amended) expands special assessment authority for police services, fire services, or both to cities with a population of 15,500 or more. Cities with a population of 15,500 or more must seek voter approval to exercise these special assessment powers. The act continues to allow all townships and villages and those cities with a population of less than 15,500 to establish the special assessment district pursuant to certain procedures and public hearing on the governing body's own initiative, pursuant to a petition process by property owners, or by an election.

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.

Updated Uniform Chart of Accounts (UCA)

In January 2023, the Michigan Department of Treasury revised the UCA, which is available at this link: <https://lnks.gd//eyJhbGciOiJIUzI1NiJ9.eyJlbWFpbCI6ImFzaGxleS5mcmFzZUBwbGFudGVtb3Jhbi5jb20iLlCjIdWxsZXRpbl9saW5rX2lkjoiMTAwIiwic3Vic2NyaWJlcl9pZCI6ImVyc2N2NDM2MmIiImxpbnRmfaWQiOiIyYXNjYmIjc4NjU4IiwidXJpljoiYnAyOmRpZ2VzdCIsInVybCI6Imh0dHBzOi8vd3d3Lm1pY2hpZ2FuLmdvdi90cmVhc3VyeS8tL21lZGhlL1Byb2pY3QvV2Vic2l0ZXMvdHJlYXN1cnkvQkxHU1MtQ0VGRC1GT0xERVlVQnVsbGV0aW5zLU1hbnVhbHMtYW5kLUZvcmlzL1VDQS1KYW51YXJ5LTlwMjMucGRmliwiYnVsbGV0aW5faWQiOiIyYXNjYmIzMDZMS43MDcyNTE2MSJ9.WD-azxs7cH09Pnp5lpwL93HQVebb6FdqcevCmnGlaV4>.

The State has indicated that past editions of the UCA should be discarded. Prior to the January 2023 revised UCA, the State issued a memo that sets an implementation date for fiscal years ending on October 31, 2022 and thereafter. This final UCA 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?gsp=MITREAS_1.

Inflation Rate Multiplier for 2023

In January 2023, the Michigan State Tax Commission issued Bulletin 17 of 2022 regarding the inflation rate multiplier for use in the 2023 capped value formula and the Headlee millage reduction fraction formula. The inflation rate for property taxes as defined in Michigan Compiled Law (MCL) 211.34d has increased beyond the historical 5 percent cap to 7.9 percent for 2023. As a result, the inflation rate multiplier of 1.079 must be used in the calculation of the 2023 Headlee millage reduction fraction required by Michigan Compiled Law (MCL) 211.34d. As the inflation rate multiplier of 1.079 is higher than 1.05, the inflation rate multiplier to be used in the 2023 capped value formula is 1.05.

Section III - Other Recommendations and Related Information (Continued)

Rules Governing Management of Federal Programs

The Office of Management and Budget (OMB) issued significant reforms to the compliance requirements that must be followed by nonfederal entities receiving federal funding related to awards on or after December 26, 2014. While these revisions were not too recent, the revisions were the most significant change to occur to federal grants management in recent history. While many communities have historically been below the \$750,000 single audit threshold, recent legislation provides for an increase in federal spending, and, therefore, more communities may be subject to an audit requirement; the City will need to understand these reforms and may be required to make changes to internal procedures, processes, and controls.

- **Cost Principles** - There were certain changes made to allowable costs and significant changes in the area of time and effort reporting and indirect costs.
- **Administrative Requirements** - Nonfederal entities receiving federal funding must adhere to revised rules related to administering federal awards. Most notably, the requirements may impact the City's procurement systems, including maintaining written conflict of interest policies and disclosures.

The City will need to ensure that consideration of the implementation of these regulations has occurred; if it has not, the City needs to work quickly to put the requirements into practice. Plante & Moran, PLLC has many experts in this area and welcomes any questions or needs you may have.

Federal Procurement Threshold Changes

The Office of Management and Budget has issued significant reforms to the compliance requirements that must be followed by nonfederal entities. The Office of Management and Budget recently issued Memorandum M-18-18, which provides guidance on changes to micropurchases and simplified acquisition threshold requirements. The key changes are as follows:

- Threshold for micropurchases is increased to \$10,000.
- Threshold for simplified acquisitions (small purchase procedures limit) increased to \$250,000.

Key adoption considerations for micropurchase and simplified acquisition thresholds include the following:

- During the original adoption of the Uniform Guidance procurement standards, were specific amounts included within the City's procurement policy, or were references to the Uniform Guidance sections or amounts as adjusted referenced? If specific amounts were referenced, the procurement policy will need to be updated to take advantage of the changes.
- If the City's procurement policy was written to allow for changes in amounts, the procedures will need to be updated to conform.
- If this change is inconsistent with other procurement policies within the organization, the City must decide how the policy will be enacted. Remember local ordinances in place may limit full utilization of changes.
- If the City has chosen not to fully adopt the change and maintain a lower threshold, then the City is not required to use these thresholds but cannot exceed them.

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

Other New Legislation

ARPA and SLFRF for Affordable Housing Production and Preservation

In July 2022, the U.S. Department of the Treasury announced new guidance to increase the ability of state, local, and tribal governments to use SLFRF funds to boost the supply of affordable housing in their communities. The new eligible uses for housing expenditures include projects that would be eligible for funding under an expanded list of federal housing programs and projects for the development, repair, or operation of affordable rental housing with certain income and affordability requirements. The SLFRF final rule FAQ document reflects this new guidance related to eligible housing expenditures: <https://home.treasury.gov/system/files/136/SLFRF-Final-Rule-FAQ.pdf>.

Upcoming Accounting Standards Requiring Preparation

We actively monitor new Governmental Accounting Standards Board (GASB) standards and due process documents and provide periodic updates to help you understand how the latest financial reporting developments will impact the City. In addition to the summaries below and to stay up to date, Plante & Moran, PLLC issues a biannual GASB accounting standard update. The most recent spring 2022 update and a link to previous fall and spring updates are available [here](#).

GASB Statement No. 100 - Accounting Changes and Error Corrections

This new accounting pronouncement will be effective for fiscal years ending June 30, 2024 and after. This statement enhances the accounting and financial reporting requirements for accounting changes and error corrections.

GASB Statement No. 101 - Compensated Absences

This new accounting pronouncement will be effective for fiscal years ending December 31, 2024 and after. This statement updates the recognition and measurement guidance for compensated absences under a unified model, requiring that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. This statement also establishes guidance for measuring a liability for leave that has not been used and updates disclosure requirements for compensated absences.

Significant GASB Proposals Worth Watching

The GASB is working on two comprehensive projects that result in changes to financial reporting for state and local governments.

The Financial Reporting Model exposure draft was issued in June 2020, and the final statement is expected to be released in mid 2024. This standard proposes changes to many aspects of the City's financial statements, including the management's discussion and analysis (MD&A), proprietary fund financial statements, and budgetary comparisons. In August 2023, the GASB removed issues related to reporting of governmental funds from the scope of this project.

The Revenue and Expense Recognition project aims to develop a comprehensive accounting and financial reporting model for transactions that result in revenue and expenses. 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 categorization process for classifying a transaction. In addition to this new framework, the proposal also addresses recognition and measurement of revenue and expense transactions. The exposure draft for this project is expected sometime in 2025.

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.