



## Vredeveld Haefner LLC

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July 25, 2022

To the City Council  
City of Muskegon Heights

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 Muskegon Heights (the City) for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, 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 May 31, 2022. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Muskegon Heights 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 2021. We noted no transactions entered into by City of Muskegon Heights 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 estimates affecting the City's financial statements:

Management's estimate of the useful lives of capital assets, the allowance for uncollectible accounts receivable and the valuation of the pension and other post-employment benefit plans and obligations.

The useful lives of capital assets and the amount of uncollectible accounts are based on previous activity and future expectations and the pension and other post-employment benefit plan obligations are based on actuarial valuations or valuation roll forwards of the plans. 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.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosures of compliance with revenue bond covenants which is based on bond covenants as understood by City management.

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. Management has corrected all such misstatements. Some of the misstatements identified and corrected by management were material to the City's financial statements and the various opinion units. A complete list of adjustments posted during the audit process is attached.

### *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 July 25, 2022.

### *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 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.

We also noted the following items during the performance of our audit:

#### **Distributions to Other Units of Government**

The balance of over-captured property taxes reported in the Downtown Development Authority have accumulated. We recommend making appropriate distributions of these balance to the applicable units of government.

We also noted that property taxes collected for other units of government were not always distributed within the time requirements provided by state law. We recommend property tax collection be distributed within the time requirements provided by state law.

#### **Controls Over the Cash Receipting Process**

We noted that voided cash receipts were not being reviewed or approved by an individual independent of the receipting process. We suggest that an individual independent of the receipting process document the review and approval of voided cash receipts at least monthly.

Cash receipts for boat launch and garbage stickers are currently processed through the BSA cash receipting system. City staff is also maintaining subsidiary documentation accounting for the number of stickers sold. We suggest an individual independent of the receipting process document the monthly reconciliation of stickers available and sold to general ledger balances.

Checks returned to the City for customer nonsufficient funds are not being addressed in a timely manner. We suggest that City staff take timely action to assure collection of the balance of each customer nonsufficient funds check.

#### **Outstanding Checks**

Some bank accounts have long outstanding checks. We recommend reviewing the outstanding check listing and taking action as necessary to address these balances and to ensure the City's compliance with State of Michigan escheat laws.

#### **Segregation of Duties and Income Tax Ordinance Enforcement Activities**

Income tax receipts are received, reconciled, and posted to the income tax system by the income tax clerk. The income tax clerk is also responsible for enforcement of the City Income Tax Ordinance. We recommend development and implementation of policies and procedures to ensure that the income tax enforcement activities are completed timely and supervised; entries and adjustments to the income tax system are independently monitored; a reconciliation between

balances reported in the income tax system and the balances reported in the general ledger is documented; and a review of the reconciliation is performed by a knowledgeable individual independent of the income collection and enforcement activities.

#### **SEC Continuing Disclosure**

We noted that the City has not prepared and submitted/distributed timely continuing disclosure of specific information required by both bond agreements and the U.S. Securities and Exchange Commission. We recommend the City develop policies and procedures to assure completion and timely submission of continuing disclosure for all applicable years.

#### **Journal Entries**

We noted that journal entries are not consistently approved by someone other than the preparer. We recommend that the City modify its policies and procedures to ensure that each journal entry is reviewed by a knowledgeable individual independent of the journal entry preparation.

#### **Unallowable Investment**

During our review of investment balances, we noticed a fixed income investment fund included corporate bonds which is not an allowable investment for the City. We recommend the City take steps to divest this investment as soon as possible and review Michigan PA 20 as amended to ensure future compliance with investment activity.

#### **Material weakness in internal control**

The reports on internal controls over financial reporting and compliance identified multiple material weaknesses that should be addressed by the City staff.

#### Other Matters

We applied certain limited procedures to management's discussion and analysis and the required supplementary information as identified on the audit report index. This information is 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 the 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 supplementary information, 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 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.

Sincerely,

*Uredaxeld Haefner LLC*