

December 18, 2020

The Honorable Mayor, Members of the City Council
of the City of Lansing, and Members of the Board of
Directors of the Tri-County Metro Narcotics Squad
Lansing, Michigan

We have audited the financial statements of the governmental activities and the governmental fund of the Tri-County Metro Narcotics Squad, a special revenue fund of the City of Lansing, Michigan, for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *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 City Council dated May 5, 2020. 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 Tri-County Metro Narcotics Squad are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies were not changed during the year ended June 30, 2020. We noted no transactions entered into by the Tri-County Metro Narcotics Squad 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. There were no significant estimates for the year ended June 30, 2020.

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

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements detected as a result of audit procedures and corrected by management are described in connection with our report on internal control over financial reporting.

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 December 18, 2020.

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 Tri-County Metro'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 Tri-County Metro's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplement 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.

Restriction on Use

This information is intended solely for the use of City Council, the Board of Directors of the Tri-County Metro Narcotics Squad, and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC

**TRI-COUNTY METRO NARCOTICS SQUAD
LANSING, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)**

YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor, Members of the City Council
of the City of Lansing, and Members of the Board of
Directors of the Tri-County Metro Narcotics Squad
Lansing, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the governmental fund of the Tri-County Metro Narcotics Squad ("Tri-County Metro"), a special revenue fund of the City of Lansing, Michigan, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Tri-County Metro's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental fund of the Tri-County Metro Narcotics Squad as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Tri-County Metro has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis of Matter

Exclusive Presentation

As discussed in Note 1, the financial statements referred to above present only the Tri-County Metro Narcotics Squad and do not purport to, and do not, present fairly the financial position of the City of Lansing, Michigan, as of June 30, 2020, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2020, on our consideration of the Tri-County Metro Narcotics Squad's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tri-County Metro's internal control over financial reporting and compliance.

Maney Costeiran PC

December 18, 2020

BASIC FINANCIAL STATEMENTS

TRI-COUNTY METRO NARCOTICS SQUAD
STATEMENT OF NET POSITION
JUNE 30, 2020

ASSETS	
Cash and cash equivalents	\$ 698,130
Due from other governments	<u>60,946</u>
 TOTAL ASSETS	 <u>759,076</u>
LIABILITIES	
Accounts payable	44,988
Accrued payroll	1,904
Due to other governments	303,716
Undistributed forfeitures	<u>40,368</u>
 TOTAL LIABILITIES	 <u>390,976</u>
NET POSITION	
Restricted for public safety	<u><u>\$ 368,100</u></u>

See accompanying notes to financial statements.

**TRI-COUNTY METRO NARCOTICS SQUAD
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenues and Changes in Net Position</u>
Governmental activities			
Public safety	<u>\$ 643,297</u>	<u>\$ 635,930</u>	<u>\$ (7,367)</u>
General revenues			
Interest			8,652
Other			<u>10,587</u>
Total general revenues			<u>19,239</u>
Change in net position			11,872
Net position, beginning of the year			<u>356,228</u>
Net position, end of the year			<u>\$ 368,100</u>

See accompanying notes to financial statements.

**TRI-COUNTY METRO NARCOTICS SQUAD
GOVERNMENTAL FUND
BALANCE SHEET
JUNE 30, 2020**

ASSETS	
Cash and cash equivalents	\$ 698,130
Due from other governments	<u>60,946</u>
TOTAL ASSETS	<u><u>\$ 759,076</u></u>
LIABILITIES	
Accounts payable	\$ 44,988
Accrued payroll	1,904
Due to other governments	303,716
Undistributed forfeitures	<u>40,368</u>
TOTAL LIABILITIES	390,976
FUND BALANCE	
Restricted for public safety	<u>368,100</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 759,076</u></u>

See accompanying notes to financial statements.

**TRI-COUNTY METRO NARCOTICS SQUAD
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020**

Fund balance - governmental fund \$ 368,100

Reconciliation of the governmental fund balance sheet to the statement of net position is not required as fund balance was equal to the net position as of June 30, 2020.

-

Net position of governmental activities \$ 368,100

**TRI-COUNTY METRO NARCOTICS SQUAD
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2020**

REVENUES	
Intergovernmental	\$ 614,842
Forfeitures	21,088
Interest	8,652
Other	<u>10,587</u>
TOTAL REVENUES	<u>655,169</u>
EXPENDITURES	
Current	
Public safety	<u>643,297</u>
NET CHANGE IN FUND BALANCE	11,872
Fund balance, beginning of year	<u>356,228</u>
Fund balance, end of year	<u><u>\$ 368,100</u></u>

See accompanying notes to financial statements.

TRI-COUNTY METRO NARCOTICS SQUAD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Net change in fund balance - governmental fund	\$ 11,872
Reconciliation of the statement of revenues, expenditures, and changes in fund balance to the statement of activities is not required as the net change in fund balance was equal to the change in net position for the year ended June 30, 2020.	<u>-</u>
Change in net position of governmental activities	<u><u>\$ 11,872</u></u>

TRI-COUNTY METRO NARCOTICS SQUAD NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Tri-County Metro Narcotics Squad ("Tri-County Metro") is a special revenue fund of the City of Lansing, Michigan. The financial statements of Tri-County Metro have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of Tri-County Metro's accounting policies are described below.

Reporting Entity

Tri-County Metro was formed under an interlocal agreement with participation from the City of Lansing, City of East Lansing, Ingham, Eaton, and Clinton Counties and the Michigan Department of State Police. This task force was formed pursuant to the Urban Cooperation Act of 1967 and is governed by a command board made up of member-designated representatives. The operations of Tri-County Metro are accounted for by the City of Lansing as part of its nonmajor governmental funds.

The purpose of Tri-County Metro is to establish a cooperative law enforcement force assembled for the purpose of enforcing narcotics and other controlled substances laws.

The accompanying financial statements present the financial position and results of operations of Tri-County Metro. They do not purport to, and do not present fairly, the net position of the City of Lansing, Michigan and changes in its net position or cash flows in conformity with accounting principles generally accepted in the United States of America. Tri-County Metro has no blended or discretely presented component units, and is not itself a component unit of any other government.

Operations

Tri-County Metro's primary revenue sources are forfeitures, grants and local contributions. These sources provide funding for goods and services which include supply and equipment purchases, office, and vehicle rents and contractual services including payment for contract labor. Tri-County Metro has no direct employees.

Basis of Presentation

Separate financial statements are provided for governmental funds and proprietary funds, when applicable. The individual governmental fund is reported as a separate column in the fund financial statements. Tri-County Metro does not have any proprietary funds.

Governmental Fund

This fund is used to account for all financial transactions including all financial resources and general operating expenditures.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of Tri-County Metro. Governmental activities are mainly supported by forfeitures and intergovernmental revenues.

**TRI-COUNTY METRO NARCOTICS SQUAD
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, forfeit to, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements (the statement of net position and statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements (balance sheet and statement of revenues, expenditures and changes in fund balance) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within three months of the end of the current fiscal period, or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Charges for services, grant revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, and amounts held by the City of Lansing for the benefit of Tri-County Metro.

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide statements (statement of net position). Capital assets are defined by Tri-County Metro as assets with an initial, individual cost of more than \$5,000 and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is recorded over the estimated useful lives (six years for equipment) of the assets, using the straight-line method for all capital assets.

**TRI-COUNTY METRO NARCOTICS SQUAD
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, the Board of Directors. A formal resolution of the Board of Directors is required to establish, modify, or rescind a fund balance commitment. The government reports assigned fund balance for amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed. Tri- County Metro currently has no committed or assigned fund balance.

When the government incurs an expenditure for purposes for which various fund balance classifications can be used, it is the government’s policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Budgetary Process

Tri-County Metro is under formal budgetary control. Formal budget integration is employed as a management control device during the year. Tri-County Metro’s budget is provided to the Tri-County Metro Narcotics Squad Board after approval by City Council of the City of Lansing to confirm in accordance with Public Act 2 of 1968, as amended by Public Act 621, the Michigan Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The budget, as presented in the accompanying statement of revenues, expenditures, and changes in fund balance, was prepared on the modified accrual basis of accounting.

Public Act 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

NOTE 2 - DEPOSITS

Tri-County Metro’s cash and cash equivalents included on the statement of net position and governmental fund balance sheet are classified as follows:

Cash on hand	\$	49,029
Equity in pooled cash of the City of Lansing, Michigan		649,101
Total	\$	698,130

Deposits and Investments

State of Michigan statutes authorize Tri-County Metro to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers’ acceptance of U.S. banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

**TRI-COUNTY METRO NARCOTICS SQUAD
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS (continued)

Deposits and Investments (continued)

The above cash and cash equivalents are held by the City of Lansing, Michigan (the fiscal agent of Tri-County Metro). Specific deposit and investment accounts are not held in the name of Tri-County Metro but are pooled with all deposits of the City. The amount of federal depository insurance and custodial credit risk of investments is determined for the City of Lansing, Michigan as a whole, and cannot be separately identified for Tri-County Metro.

NOTE 3 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Equipment	\$ 53,970	\$ -	\$ -	\$ 53,970
Less accumulated depreciation	(53,970)	-	-	(53,970)
Capital assets, net	\$ -	\$ -	\$ -	\$ -

NOTE 4 - RISK MANAGEMENT

Tri-County Metro, a special revenue fund of the City of Lansing, is exposed to various risks of loss that are covered by the City's policies, including losses related to issues of cyber security, liability, errors and omissions, flood, boiler and machinery, property, employee bonding, auto, crime, ERISA considerations, and workers' compensation. City representatives in Tri-County Metro are covered through the City's insurance policies. The City carries commercial insurance to cover these risks. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage during the past three years.

NOTE 5 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities for all state and local governments, focusing on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries for whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Tri-County Metro is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020-2021 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring 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. The Tri-County Metro is currently evaluating the impact this standard will have on the financial statements when adopted during the 2021-2022 fiscal year.

**TRI-COUNTY METRO NARCOTICS SQUAD
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - UPCOMING ACCOUNTING PRONOUNCEMENTS (continued)

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. This Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations. The Tri-County Metro is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The Tri-County Metro is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

**TRI-COUNTY METRO NARCOTICS SQUAD
GOVERNMENTAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 425,000	\$ 493,610	\$ 614,842	\$ 121,232
Forfeitures	382,000	382,000	21,088	(360,912)
Interest	-	-	8,652	8,652
Other	-	-	10,587	10,587
TOTAL REVENUES	807,000	875,610	655,169	(220,441)
EXPENDITURES				
Current				
Public safety	807,000	875,610	643,297	232,313
NET CHANGE IN FUND BALANCE	-	-	11,872	11,872
Fund balance, beginning of year	356,228	356,228	356,228	-
Fund balance, end of year	<u>\$ 356,228</u>	<u>\$ 356,228</u>	<u>\$ 368,100</u>	<u>\$ 11,872</u>

**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***

The Honorable Mayor, Members of the City Council
of the City of Lansing, and Members of the Board of
Directors of the Tri-County Metro Narcotics Squad
Lansing, 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 and the governmental fund of the Tri-County Metro Narcotics Squad ("Tri-County Metro"), a special revenue fund of the City of Lansing, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Tri-County Metro's basic financial statements and have issued our report thereon dated December 18, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Tri-County Metro'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 Tri-County Metro's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tri-County Metro'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 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. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses:

2020-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the proper recognition of various financial statement amounts within the City's accounting records were proposed by the auditors, including accounts that affected Tri-County Metro. In addition, we received several revisions to the City's trial balance (the final version coming in early December 2020), each of which contained material corrections to previous trial balances.

Criteria: Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the recording of all appropriate journal entries to assure the trial balance from which the financial statements are prepared, reflect amounts that are in conformity with U.S. generally accepted accounting principles.

Cause: Over the past several years, the City's Finance Department, who prepares the reconciliations of all accounts, has reduced in size due to budget reductions, staffing reductions and staffing turnover. These changes have placed a significant burden on the month and year end close processes, and have contributed to journal entries not being completed or reviewed timely.

Effect: The Tri-County Metro's accounting records were initially misstated by amounts material to the financial statements. Necessary adjustments were brought to the attention of management and were subsequently recorded in the Tri-County Metro's general ledger.

Recommendation: We recommend that the City take steps to assure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: Management of the City will continue to review auditor recommendations/corrections and internal procedures related to the identification and correction of potential errors in the financial statements prior to the beginning of future audits. The Finance team will meet to review adjustments made to this year's financial statements and will develop a plan to address the most significant issues in a timelier manner going forward. Within budget constraints, Management will look to increase staffing levels and/or obtain temporary assistance earlier in the fiscal year, in order to perform more timely analyses of the various account balances.

2020-02 BANK RECONCILIATIONS

Condition: Throughout the year, the City failed to complete bank reconciliations on a timely basis for most of its cash accounts, including the pooled account which the Tri-County Metro is part of. Several individual bank account reconciliations were not completed for the entire fiscal year until approximately four months after fiscal year end while audit fieldwork was ongoing.

Criteria: Completion of timely bank account reconciliations and review thereof, represent an important control used to detect and prevent misstatements and errors. Such reconciliations should be completed and reviewed monthly for all accounts.

Cause: Over the past several years, the City's Finance Department, who prepares the reconciliations of all entity accounts, has reduced in size due to staffing reductions and staffing turnover. These changes have placed a significant burden on the month and year end close processes, and have contributed to reconciliations not being completed or reviewed timely.

Effect: As a result of this condition, all activities that have cash transactions have an increased risk that misstatements in the accounting records, whether caused by error or fraud, would not be detected and corrected on a timely basis.

2020-02 BANK RECONCILIATIONS (continued)

Recommendation: We recommend the City take steps to assure all bank reconciliations are completed and tied to the general ledger in a timely fashion and all differences be resolved in a timely manner.

Correction Action Response: Management of the City will work on several areas of improvement to alleviate this issue.

- a. We will continue to review the need for the various bank accounts that have been established over the years with the view toward more consolidation.
- b. We will assign the responsibility for each of the bank accounts to various Finance staff members, including using City Treasury staff, who will be responsible for reconciling those statements in a timely manner.
- c. We will review the old outstanding reconciling items with the view toward clearing them up before the end of the next fiscal year.
- d. We will look to increase staffing levels in Finance and/or obtain temporary assistance earlier in the fiscal year, in order to perform more timely analyses of the various bank statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tri-County Metro’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 *Governmental Auditing Standards*.

Tri-County Metro’s Responses to Findings

Tri-County Metro’s responses to the findings identified in our audit are described above. Tri-County Metro’s responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Manes Costeiran PC

December 18, 2020