

**INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

December 15, 2015

Transition Advisory Board  
Joseph M. Sobota, City Administrator  
City Council  
City of Pontiac  
Pontiac, 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 the *City of Pontiac, Michigan* (the "City") as of and for the year ended June 30, 2015, and have issued our report thereon dated December 15, 2015. We did not audit the financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, and the Police and Fire Retiree Prefunded Group Health and Insurance Trust. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements and this report, insofar as they relate to the General City Employees' Retirement System, the Police and Fire Retirement System, and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, are based solely on the report of other auditors. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated August 19, 2015, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also 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 for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated December 15, 2015. In addition, we noted certain other matters which are included in Attachment A to this letter.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on June 9, 2015.

### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

### **Qualitative Aspects of the City's Significant Accounting Practices**

#### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements.

As described in Note 19 to the financial statements, the City changed accounting policies related to accounting for pension plans by adopting Statement of Governmental Accounting Standards Board (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions*. The cumulative effect of the accounting change as of the beginning of the year is reported in the proprietary funds statement of revenues, expenses, and changes in fund net position, and government-wide statement of activities.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.
- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.

- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

#### **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

#### **Uncorrected and Corrected 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. We did not identify any misstatements during our audit.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

#### **Representations Requested from Management**

We have requested certain written representations from management, which are included in Attachment C to this letter.

#### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

#### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. 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.

**Upcoming Changes in Accounting Standards**

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of the *City of Pontiac* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Lohman LLC". The signature is written in a cursive, flowing style.

# CITY OF PONTIAC

## Attachment A - Comments and Recommendations

For the June 30, 2015 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the City's internal control over financial reporting is described in our report, dated December 15, 2015, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated December 15, 2015, on the financial statements of the City of Pontiac.

### Segregation of Duties - Courts (repeat)

It was noted through inquiry of various personnel, that due to limited staffing at the Court, proper segregation of duties can, at times, be compromised due to employees being on vacation or calling in sick. While we are unaware of any actual issues that have occurred, we recommend that the Court review its current procedures and implement those necessary to ensure that proper segregation of duties exists in all circumstances or that proper mitigating controls are in place.

### Unprocessed Tickets at the Court (repeat)

While performing a walkthrough of internal controls at the Court and through inquiries of various personnel, we noted that there were a significant number of unprocessed tickets that had been issued, but had not yet been entered into the system. This increases the risk that receivables are not being recorded on a timely basis. Management should review procedures related to the processing of these tickets and consider implementing more effective procedures to enhance internal controls over this process.

### Personnel Policies Regarding Paid Time Off (repeat)

As noted in the PY, there are inconsistencies in the understanding of the vacation policies and how vacation time accrues for Court union employees. Currently, accrual are not calculated by the payroll system using the language in the union contracts. We recommend that the written policies regarding vacation time be reviewed, and revised accordingly, to reduce the risk of these policies being misinterpreted.

It was noted through inquiry of personnel, that there are inconsistencies in the understanding of the vacation policies and how vacation time accrues, specifically between the City and the Court. We recommend that the written policies regarding vacation time be reviewed, and revised accordingly, to reduce the risk of these policies being misinterpreted.

In addition, it was noted during our testing of compensated absences, that the Court allows judges to accrue sick time based upon the internal policy of the Court. This accrual, although not significant, was subsequently reversed, as allowing judges to accrue sick time is not in accordance with the *State of Michigan Administrative Rules of the Court, Judicial Vacation Standard*. As a result the City should consider updating policies regarding sick pay to reduce the risk of these policies being misinterpreted.

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# CITY OF PONTIAC

## **Attachment B - Upcoming Changes in Accounting Standards / Regulations**

For the June 30, 2015 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the City in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the City. For the complete text of these and other GASB standards, visit [www.gasb.org](http://www.gasb.org) and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

### **GASB 72 ■ Fair Value Measurement and Application**

*Effective 06/15/2016 (your FY 2016)*

This standard defines "fair value" as the price that would be received to sell an asset in an orderly transaction between market participants (an "exit price"). Fair value measurement is currently applied principally to investments, which GASB 72 does not change. However, it does introduce specific methods for measuring fair value when a market price is not readily available, and establishes a 3-level hierarchy of fair value that is disclosed in the footnotes, based on the presence or absence of observable market inputs.

### **GASB 73 ■ Pensions and Related Assets Not Within the Scope of GASB 68**

*Effective 06/15/2016 (your FY 2016)*

This standard addresses accounting and financial reporting for pensions that were not covered by GASB Statement No. 68, because the plan assets are not held in trust. Essentially, it applies the same treatment as GASB 68, but reflects the total pension liability and plan assets separately, rather than a net pension liability. We do not expect this standard to have any significant effect on the City.

### **GASB 74 ■ Postemployment Benefit Plans Other than Pension Plans**

*Effective 06/15/2017 (your FY 2017)*

This standard requires the calculation of a net other postemployment benefit (OPEB) liability based on an actuarial valuation of retiree healthcare and similar benefits administered by an OPEB trust. It mirrors the new accounting and financial reporting requirements of GASB 67 for pension plans.

### **GASB 75 ■ Postemployment Benefits Other than Pensions**

*Effective 06/15/2018 (your FY 2018)*

This standard builds on the requirements of GASB 74 by requiring employers that provide other postemployment benefits (OPEB) to recognize a net OPEB liability on their statements of net position. It mirrors the new accounting and financial reporting requirements of GASB 68 for pension benefits.

### **GASB 76 ■ The Hierarchy of GAAP for State and Local Governments**

*Effective 06/15/2016 (your FY 2016)*

This standard clarifies the source of "generally accepted accounting principles" (GAAP) for governments. Authoritative sources of GAAP now include (1) GASB pronouncements, (2) GASB implementation guides, and (3) AICPA literature specifically cleared by the GASB. This standard does not change existing GAAP.

# CITY OF PONTIAC

## Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2015 Audit

### **GASB 77 ■ Tax Abatement Disclosures**

*Effective 12/15/2016 (your FY 2017)*

This standard requires governments to disclose certain information about tax abatement agreements made to foster economic development or otherwise benefit the government or its citizens. Required disclosures include a brief description of the arrangement, the gross dollar amount of taxes abated in the current period, and any additional commitments made by the government as part of the agreement.

### **2 CFR 200 ■ Uniform Guidance for Federal Awards**

*Cost Principles Effective 12/26/2014; Single Audit Requirements Effective 12/26/2015 (your FY 2016)*

The Office of Management and Budget (OMB) has consolidated seven separate circulars (including administrative requirements, cost principles, and audit requirements) into a single federal regulation. The new Uniform Guidance covers all aspects of federal grants from pre-award through the single audit. While much of the guidance was simply reorganized and recodified, there were also several substantive changes to the single audit thresholds. A single audit will now only be required if total expenditures of federal awards exceed \$750,000 (up from \$500,000). The OMB also made revisions to the list of compliance requirements tested in a single audit.

In addition, the Uniform Guidance now explicitly requires grant recipients to have sound internal controls (which should be consistent with the COSO framework), and documented procedures for grant administration. Written procedures are required for payments (cash draws), procurement (including conflicts of interest), allowability of costs, compensation, and travel costs. Rehmann is available to assist grant recipients in developing/documenting these policies and procedures in compliance with the new requirements.

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## CITY OF PONTIAC

### Attachment C - Management Representations For the June 30, 2015 Audit

Following are the written representations that we requested from management.





# CITY OF PONTIAC

## OFFICE OF THE CITY ADMINISTRATOR

47450 Woodward Avenue  
Pontiac, Michigan 48342  
Telephone: (248) 758-3133  
Fax: (248) 758-3292

December 15, 2015

Rehmann Robson  
675 Robinson Road  
Jackson, Michigan 49224

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Pontiac, Michigan* (the "City"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the City in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of December 15, 2015:

### Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 19, 2015, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.



8. With regard to items reported at fair value:
  - a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
  - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
9. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
10. All funds and activities are properly classified.
11. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
12. All components of net position and fund balance classifications have been properly reported.
13. All revenues within the statement of activities have been properly classified as program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
14. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
15. All interfund and intra-entity transactions and balances have been properly classified and reported.
16. Deposit and investment risks have been properly and fully disclosed.
17. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
18. All required supplementary information is measured and presented within the prescribed guidelines.
19. We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
20. In connection with the correction of an error in recording capital assets, the City has determined that a restatement of beginning net position of governmental activities, the enterprise fund and business-type activities is sufficient to inform financial statement users, and accordingly, no revised and reissued financial statements for fiscal year 2014 or any previous fiscal years are necessary. Also, the City has evaluated the underlying cause of this error and determined that it does not affect any other areas of the financial statements.

#### Information Provided

21. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
22. All transactions have been recorded in the accounting records and are reflected in the financial statements.
23. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
24. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management;



- b. Employees who have significant roles in internal control; or
  - c. Others where the fraud could have a material effect on the financial statements.
25. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
26. We have disclosed to you all known or possible litigation and claims whose effects should be considered when preparing the financial statements.
27. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
28. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
29. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
30. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
31. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
32. There are no:
- a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
33. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
34. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
35. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

#### **Supplementary Information in Relation to the Financial Statements as a Whole**

36. With respect to the supplementary information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

#### **Required Supplementary Information**

37. With respect to the required supplementary information accompanying the financial statements:

- a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
- b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.



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Joseph M. Sobota, MPA  
City Administrator



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Nevrus Nazarko, CPA  
Finance Director