

City of Pontiac,
Michigan



Year Ended
June 30, 2012

Single Audit Act
Compliance

CITY OF PONTIAC, MICHIGAN

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INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 28, 2012

To the Emergency Financial Manager of
the 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*, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements, and have issued our report thereon dated December 28, 2012, which contained unqualified opinions on those financial statements. Our report includes a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



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CITY OF PONTIAC, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Housing and Urban Development				
Community Development Block Grants/Entitlement Grants Cluster:				
2009 Program Year	14.218	Direct	B-09-MC-26-0009	\$ 35,400
2010 Program Year	14.218	Direct	B-10 MC-26-0009	2,374,510
2011 Program Year	14.218	Direct	B-11 MC-26-0009	992,890
Neighborhood Stabilization Program I	14.218	Direct	B-08-MN-26-0009	<u>1,976,759</u>
				5,379,559
HOME Investment Partnerships	14.239	Direct	M-03-MC-26-0211	1,000,755
ARRA - Homelessness Prevention and Rapid Re-housing Program	14.257	Direct	S09-MY-26-0009	<u>125,093</u>
Total U.S. Department of Housing and Urban Development				<u>6,505,407</u>
U.S. Department of Justice				
Justice Assistance Grant Program Cluster:				
2009	16.738	MSP	2009-DJ-BX-0790	134,882
2010	16.738	MSP	2010-DJ-BX-1311	145,732
2011	16.738	MSP	2011-DJ-BX-3153	121,903
ARRA - 2009	16.804	MSP	2009-SB-B9-1863	<u>533,554</u>
Total U.S. Department of Justice				<u>936,071</u>
U.S. Department of Transportation				
Highway Planning and Construction:				
ARRA - Resurface, Rehabilitate and Restore Roadway:				
Walton Boulevard to City Limits	20.205	MDOT	104706A	104,325
Wayne Street	20.205	MDOT	104709A	27,283
Traffic Signal Upgrading:				
East Pike and Saginaw Street	20.205	MDOT	107379	(6,012)
Auburn and Sanford Street	20.205	MDOT	105039	51,177
MLK Widening Project	20.205	MDOT	49864C	<u>(829)</u>
Total U.S. Department of Transportation				<u>175,944</u>
U.S. Environmental Protection Agency				
Pontiac Creek Watershed Management Plan -				
Nonpoint Source Implementation Grant	66.460	MDEQ	2007-0143	(1,086)
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MDEQ	2F-00E751-01	<u>367,978</u>
Total U.S. Environmental Protection Agency				<u>366,892</u>
U.S. Department of Energy				
ARRA - Energy Efficiency and Conservation Block Grant	81.128	Direct	DE-SC0002550	<u>93,328</u>
U.S. Department of Homeland Security				
Homeland Security Grant Program	97.067	OC	-n/a-	<u>357</u>
Total Expenditures of Federal Awards				<u>\$ 8,077,999</u>

See notes to schedule of expenditures of federal awards.

CITY OF PONTIAC, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Pontiac (the "City") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the City's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

3. PASS-THROUGH AGENCIES

The City receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDEQ	Michigan Department of Environmental Quality
MDOT	Michigan Department of Transportation
MSP	Michigan State Police
OC	County of Oakland, Michigan

CITY OF PONTIAC, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

4. SUBRECIPIENTS

The City administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the City's reporting entity. Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant/ Entitlement Grants Cluster	14.218	\$ 1,563,540
Home Investment Partnerships Program	14.239	906,253
ARRA - Homelessness Prevention and Rapid Re-housing Program	14.257	<u>113,387</u>
		<u>\$ 2,583,180</u>

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INDEPENDENT AUDITORS' 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*

December 28, 2012

To the Emergency Financial Manager of
the 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, 2012, which collectively comprise the basic financial statements of the City, and have issued our report thereon dated December 28, 2012. Our report includes a reference to other auditors. 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. Our report includes a reference to other auditors. Other auditors audited the financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employee's Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust, as described in our report on the City's financial statements. The financial statements of the General City Employees' Retirement System, the Police and Fire Retirement System, the General Employee's Retiree Health Insurance Benefits Trust and the Police and Fire Retiree Prefunded Group Health and Insurance Trust were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-FS-1, 2012-FS-2 and 2012-FS-4 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-FS-3, 2012-FS-5, 2012-FS-6, 2012-FS-7 and 2012-FS-8 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-FS-4.

We noted certain other matters that we reported to management of the City in a separate letter dated December 28, 2012.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Emergency Financial Manager, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

December 28, 2012

To the Emergency Financial Manager of
the City of Pontiac
Pontiac, Michigan

Compliance

We have audited the City of Pontiac, Michigan's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Pontiac, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Pontiac, Michigan's compliance with those requirements.

In our opinion, the City of Pontiac, Michigan complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-SA-01 and 2012-SA-02.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-SA-01 and 2012-SA-02. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Emergency Financial Manager, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? X yes none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? X yes no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants/ Entitlement Grants Cluster
14.239	Home Investment Partnerships Program
16.738 & 16.804	Justice Assistance Grant Program Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-1 - Material Audit Adjustments (repeat finding)

Finding Type. Material weakness in internal control over financial reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed adjustments (which were approved and posted by management) that were material, either individually or in the aggregate, to the City's financial statements. As a result, the pre-audit financial statements of the City were materially misstated.

Cause. Internal controls related to the year end accounting closing process did not detect all adjustments necessary to properly record year-end balances.

Effect. As a result, the following areas were initially misstated:

- Accounts payable and expenditures were understated in the general fund by approximately \$92,000.
- Accounts receivable in various internal service funds was overstated by approximately \$77,000.
- Accounts receivable in the water enterprise fund was understated by approximately \$186,000, charges for services in the water enterprise fund was understated by approximately \$102,000 and charges for services in the sewer enterprise fund was understated by approximately \$84,000. The offsets to these adjustments were to the cash interfund accounts.
- Accounts payable and expenditures were overstated in the community development block grant special revenue fund by approximately \$210,000.
- The allowance for uncollectible accounts in the sewer enterprise fund was understated and charges for services were overstated by \$55,000.
- The allowance for uncollectible accounts in the water enterprise fund was understated and charges for services were overstated by \$123,050.
- Long-term debt in the tax increment finance authority component unit was overstated by \$935,000.
- The net other postemployment obligation in governmental activities was understated by approximately \$8.1 million.
- The net other postemployment obligation in business-type activities was understated by approximately \$659,000.
- Long-term debt in the tax increment finance authority component unit was understated by approximately \$237,000.

Recommendation. We recommend that finance/administrative procedures be modified to ensure that all year-end adjustments are identified as part of the year end closing process and posted for financial reporting purposes.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

View of Responsible Officials. The City strives to ensure all material items are properly recorded in the financial statements at the time the books are closed and they are turned over to the auditors, but it is almost impossible to have no adjustments for a City of the size of Pontiac. Of 10 items noted by the auditors that required adjustment, 6 were a result of receivables or payables that were discovered subsequent to the books being closed and were not reported by the various departments to the Controller's office (as all payables are recorded by each department). The other 4 items do not relate to items in the fund based financial statements. These 4 items are schedules prepared for the auditors for inclusion in the financial statements. The City will review their year-end procedures related to the 10 items and work to eliminate the need for material year-end adjustments.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-2 - Capital Asset Records (repeat finding)

Finding Type. Material weakness in internal controls over financial reporting.

Criteria. Management is responsible for maintaining capital asset records in order to properly account for and record activity related to the acquisition, disposition and depreciation of capital assets (i.e. land, construction in progress, streets and bridges, land improvements, building and improvements, equipment, vehicles and furniture).

Condition. The City does not have detailed records to support the approximately \$105,474,000 recorded on the City's books for other governmental capital assets.

Cause. The summary schedule that the Finance Department uses to account for the City's capital assets was inherited years ago from individuals previously responsible for the finance and accounting functions of the City.

Effect. By not maintaining detailed records for capital assets, it complicates the accounting for deletions and depreciation of assets. The City has no record to show the individual assets recorded, the cost of each asset and the corresponding depreciation taken on the individual assets. As a result, estimates are used to account for the deletion and depreciation of assets since reliable known data is not readily available.

Recommendation. We recommend that the City take inventory of its capital assets so that the book value of each individual asset can be more readily estimated.

View of Responsible Officials. The Controller's office has schedules that support the balances in the City's general ledger; however, the schedules are manually prepared from years of manual historical schedules prepared by City staff and former auditors that may not be 100 percent complete. Accounting standards recommend a physical inventory annually or at least every few years. The City has not had a physical inventory in over ten years. The City does not have the internal resources to perform a physical inventory. The estimated cost to have an outside party perform a physical inventory is between \$30 and \$60 thousand dollars. The City is currently evaluating all significant assets held to determine what will be disposed of or sold. After this process is complete, the City will perform a physical inventory.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-3 - Construction Deposits Payable (repeat finding)

Finding Type. Significant deficiency in internal controls over financial reporting.

Criteria. Management is responsible for maintaining subsidiary records for all of the accounts on the City's general ledger.

Condition. The Engineering Department does not maintain a master listing of all outstanding construction deposits collected and due back to developers and/or residents.

Cause. The Engineering Department maintains records for each developer and/or resident that has paid a deposit and has the ability to locate the amount owed to each individual by looking up the individual's account. The Engineering Department, however, has never kept a master listing of the amounts owed to ensure that the amounts owed per each account totals the liability that is recorded on the City's books.

Effect. There is a liability on the City's books for approximately \$422,000. However, this general ledger amount is not periodically reconciled to the records maintained by the Engineering Department. This lack of reconciliation leads to a higher risk that errors will not be prevented or detected.

Recommendation. We recommend that the Engineering Department comprise a detail of the construction deposits collected and to whom these deposits are due back.

View of Responsible Officials. The City's engineering department is in the process of preparing a master listing of the outstanding construction deposits to determine the correct balance according to their individual files. Once the master listing is complete, the Controller's office will reconcile the balance to the general ledger. The City has recently implemented procedures that will utilize the recently purchased software to track, monitor, and process construction deposits once the master listing has been established.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-4 - Failure to Timely Disburse Tax Collections (repeat finding)

Finding Type. Material noncompliance; material weakness in internal controls over financial reporting.

Criteria. The City is responsible for the collection of certain property taxes and remitting a portion of these amounts to other governmental entities within a reasonable amount of time.

Condition. The City has collected PILOT payments that are due to other governmental entities. Amounts were collected in 2008, 2009 and 2010 that have not yet been remitted to the appropriate unit of government.

Cause. The City has not assigned a specific individual this responsibility.

Effect. There is a liability on the City's books for approximately \$1,099,000 which has not been remitted timely to the appropriate units of government to which it is due.

Recommendation. We recommend that the Treasurer's Department implement procedures to ensure that identified deficiencies are corrected.

View of Responsible Officials. The City's Treasurer's office bills, collects and distributes the PILOT payments on an annual basis. The 2011 PILOT collections were billed, collected and distributed timely to the appropriate units of government however; the 2008, 2009 and 2010 PILOT collections remain undistributed. The Treasurer's office will ensure the 2008, 2009 and 2010 PILOT collections are distributed prior to the 2013 year-end as cash flow permits.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-5 - Independent Approval of Journal Entries (repeat finding)

Finding Type. Significant deficiency in internal controls over financial reporting.

Criteria. Management is responsible for establishing effective internal controls to safeguard the City's assets, and to prevent or detect misstatements to the financial statements. Journal entries, while an essential part of any accounting system, represent an opportunity to enter information into the City's records in a way that bypasses normal internal controls. Accordingly, the City should have a system in place to ensure that all journal entries and similar adjustments made to the City's accounting records are reviewed and approved by an appropriate member of management, independent of the preparer.

Condition. The journal entries prepared by the Controller's office are posted in the general ledger by the preparer without an independent review.

Cause. The City does not have sufficient controls in place to ensure that all journal entries are approved by an appropriate member of management, independent of the preparer.

Effect. While we are not aware of any actual misstatements caused by this condition, the City was nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

Recommendation. We recommend that the City establishes procedures requiring independent review and approval for all journal entries.

View of Responsible Officials. Given the limited size of the overall accounting department and significant volume of manual journal entries (thousands, annually), the City has concluded not to have the finance director review and sign all Controller's office manual journal entries. The City recently has purchased and implemented new software citywide that should significantly reduce the number of manual journal entries. The City will review its process for journal entry approval in conjunction with new software.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-6 - Court Bonds Payable (repeat finding)

Finding Type. Significant deficiency in internal controls over financial reporting.

Criteria. The Court uses an agency fund to account for bonds held on behalf of outside parties. Accordingly, the Court is required to keep accurate subsidiary records of the amounts held in this liability account. This account should be analyzed and reconciled on a regular basis (e.g. monthly or quarterly).

Condition. We requested detail for the bonds payable account in the Court's agency fund. The Court was able to provide subsidiary records, however, these records did not agree with the amount recorded on the City's general ledger. We were able to substantiate the offsetting cash balances in its entirety; however it was noted that this general ledger account was not periodically reconciled.

Cause. The Court does not have an established policy requiring the periodic reconciliation of this balance sheet account.

Effect. As a result of the condition, the City is exposed to an increased risk that misstatements, whether through error or fraud, may occur and not be prevented, or detected and corrected, on a timely basis. Balances in agency funds are particularly sensitive as this fund type, by its nature, is not subject to the normal budgetary oversight found in other funds. Accordingly, it is especially important that these funds be reconciled regularly. While the related cash balances were reconciled, this only confirms that the amounts actually on hand, not the balances that should be on hand.

Recommendation. We recommend that the Court establish procedures to ensure that all liability accounts accounted for in agency funds be analyzed and reconciled on a regular basis.

View of Responsible Officials. The City will meet with the court administrator and Chief Judge to review current procedures and the City will make recommendations to address the deficiency of controls.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-7 - Review of Spreadsheets

Finding Type. Significant deficiency in internal controls over financial reporting.

Criteria. Management is responsible for establishing effective internal controls to prevent or detect misstatements to the financial statements. It is customary to utilize various spreadsheets outside the accounting software to perform calculations and to provide support for various account balances and journal entries. The City should have a system in place to ensure that all such spreadsheets are reviewed and approved by an appropriate member of management, independent of the preparer.

Condition. There is no independent review of significant spreadsheets used to support various general ledger account balances and journal entries.

Cause. The City does not have sufficient controls in place to ensure that all significant spreadsheets are approved by an appropriate member of management, independent of the preparer.

Effect. We identified several errors on various spreadsheets, some of which resulted in material audit adjustments:

- Beginning balances on the spreadsheet used to calculate and support the adjustments related to other postemployment benefit obligations were incorrect resulting in a \$4.8 million audit adjustment.
- Assets with a combined cost of approximately \$70,000 were excluded from the original spreadsheets provided to support the amounts recorded for capital assets.

Recommendation. We recommend that the City establish procedures requiring independent review and approval for all significant spreadsheets utilized in determining amounts used in financial reporting.

View of Responsible Officials. The City has purchased and will be implementing new software that will be utilized for tracking capital assets and depreciation. The City will also implement a process to utilize the current software to track long term debt balances which should eliminate the need to rely on manually updated spreadsheets.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-8 - Water and Sewer Receivables

Finding Type. Significant deficiency in internal controls over financial reporting.

Criteria. Management is responsible for maintaining subsidiary records for all of the accounts on the City's general ledger.

Condition. The subsidiary ledger maintained for water and sewer utility billings contains numerous receivable amounts that are over 6 months old. In addition, there are numerous credit balances representing overpayments which have been made by customers.

Cause. The City should periodically review the subsidiary ledgers to ensure that older receivables have been properly moved to the tax roll in accordance with City policy.

Effect. Water and sewer receivable accounts include amounts over 6 months old that should have been placed on the tax rolls. In addition, there is approximately \$323,000 in credit balances included in receivables which should be reviewed and a determination should be made for the proper handling of these amounts.

Recommendation. We recommend that the City periodically review the subsidiary ledgers for the water and sewer utility receivables and follow up on older receivables and credit balances.

View of Responsible Officials. Subsequent to year end, the City entered into an agreement with Oakland County Water Resource Commission (WRC) to sell the City's wastewater treatment plant to WRC which also included the transferring of the City's Water and Sewer operations. The need to accrue, maintain, and remit credit balances to customers will not be the responsibility of the City's water and sewer department next year. The City did review the accounts with credit balances and determined only 5% of the total balance was related to active accounts and the potential to remit a significant credit balance in the near future was not likely.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-01 - Period of Availability

Finding Type. Immaterial noncompliance; Significant deficiency in internal controls.

Program. Community Development Block Grant Program Entitlement Cluster; U.S. Department of Housing and Urban Development; CFDA # 14.218; direct program; project numbers B-09-MC-26-2009, B-10-MC-26-0009, B-11-MC-26-0009 and B-08-MN-26-0009.

Criteria. Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, states that for a cost to be allowable under federal awards, it must be determined in accordance with generally accepted accounting principles.

Condition. Invoices recorded as liabilities at year end were actually 2012-2013 fiscal year expenditures.

Cause. Preventative and detective controls related to the proper cutoff of year-end liabilities were not operating effectively.

Effect. Expenditures initially reported in the community development block grant fund were overstated by approximately \$210,000 which resulted in the schedule of expenditures of federal awards also being overstated by the same amount. These adjustments were approved and posted by management.

Questioned Cost. None.

Recommendation. Identifying potential cutoff issues should be part of management's review during the period end closing process.

View of Responsible Officials. This finding occurred due to a misunderstanding of the grant department management's internal goal to have all federal funds expended by the end of the fiscal year. However, the City will re-emphasize controls within the accounts payable department for reviewing invoices and supporting documentation for proper period accounting before processing the payment.

CITY OF PONTIAC, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-02 - Procurement - Vendor Contracts

Finding Type. Immaterial noncompliance; Significant deficiency in internal controls.

Program. Community Development Block Grant Program Entitlement Cluster; U.S. Department of Housing and Urban Development; CFDA # 14.218; direct program; project numbers B-09-MC-26-2009, B-10-MC-26-0009, B-11-MC-26-0009 and B-08-MN-26-0009.

Criteria. Local governments are required to follow their own procurement procedures provided they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule.

Condition. During the year, the City conducted business with certain vendors absent a signed contract. In other instances, it was noted that the City conducted business with certain vendors under contracts that had been signed by a City employee who did not have the sole authority to enter into such contracts.

Cause. This condition is the result of a lack of sufficient controls over the City's procurement process.

Effect. As a result of this condition, the City was not following its procurement procedures as required.

Questioned Cost. None.

Recommendation. We recommend that management review its procurement policies and implement monitoring procedures to ensure they are being properly implemented.

View of Responsible Officials. The employee in question failed to follow proper procurement procedures and lied to his supervisors. Upon discovery by management during a regular monitoring of expenditures that demonstrated that proper procurement policies were not followed, the employee was terminated. Further investigation identified other issues with the employee and a report was made to the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General with a copy provided to the City's auditors.

CITY OF PONTIAC, MICHIGAN

Summary Schedule of Prior Federal Award Audit Findings For the Year Ended June 30, 2012

2011-10 - Cash Management - Cash Requests
Highway Planning and Construction Cluster (CFDA # 20.205)
Clean Water State Revolving Funds (CFDA # 66.458)
Drinking Water State Revolving Funds (CFDA # 66.468)
Finding adequately resolved.

2011-11 - Reporting - 1512 Reports
Clean Water State Revolving Funds (CFDA # 66.458)
Drinking Water State Revolving Funds (CFDA # 66.468)
Finding adequately resolved.

2011-12 - Reporting - Reimbursement Requests
Highway Planning and Construction Cluster (CFDA # 20.205)
Finding adequately resolved.



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