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December 2, 2016

Honorable Mayor, Management and Members of City Council
City of Saginaw
1315 S. Washington Ave.
Saginaw, MI 48601

We have completed our audit of the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saginaw as of and for the year ended June 30, 2016, and have issued our report dated December 2, 2016. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The following appendices to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the City during the audit and we would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, City Council and others within the City, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 4, 2016. 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 City are described in Note 1 of the financial statements. The Government has adopted Governmental Accounting Standards Board Statements (GASBS) No. 72, 76, 79, and 82, *Fair Value Measurement and Application*, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, *Certain External Investment Pools and Pool Participants*, and *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. GASB No. 72, 76, and 79 are effective July 1, 2015, and GASB 82 is effective for years beginning July 1, 2016, however, early implementation is encouraged. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. Statement 76 identifies the hierarchy of generally accepted accounting principles. Statement 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Statement 82 amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. We noted no transactions entered into by the City during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City of Saginaw's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Management's estimate of incurred but not reported health benefits, which is derived by using historical claims and information provided by the City's third party administrator.
- Management's estimate of other post-employment benefits, which is derived from a calculation including factors such as: life expectancy, historical insurance costs, probability of retirement, and the applicable federal interest rates in effect at the time of the calculation.
- Managements estimate of an allowance for doubtful accounts, which is based on management's judgement of collectability and aging of the accounts receivable balances.
- Management's estimate of the amount due within one year for compensated absences, which is calculated as the average of the previous three years of claims.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

The City is evaluating the impact the above GASBs will have on its financial reporting.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Management has determined that the effect of the uncorrected misstatement below is immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

In the prior year, \$117,964 was capitalized and recorded as construction in progress. During the current year, the accounting department was notified these costs were repairs and maintenance. The passed adjustment resulted in the current year's beginning net position to be overstated by \$117,964.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the: 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*; Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal Awards Required by the Uniform Grant Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, budgetary comparison schedules, retirement system information and other postemployment benefit information, we 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.

Report on Other Supplementary Information

With respect to the supplementary information accompanying the financial statements, other than list of Elected Officials or the Members of the City Council, 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.

Comprehensive Annual Financial Report

The City's audited financial statements are included in its comprehensive annual financial report. Our responsibility for the other information contained in the comprehensive annual financial report does not extend beyond the financial information identified in our audit report. We do not have an obligation to perform any procedures to corroborate the other information contained in the introductory section and statistical section. However, we read the other information and considered whether such information, or the manner of its presentation was materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, was materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Appendix II
Matters for Management's Consideration

In planning and performing our audit of the financial statements of the City of Saginaw as of and for the year ended June 30, 2016, we considered the City of Saginaw's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of the following matters for management's consideration that are opportunities for strengthening internal controls. This letter does not affect our report dated December 2, 2016, on the financial statements of the City of Saginaw. Our comments and recommendations regarding those matters are:

ACCOUNTS PAYABLE OUTSTANDING CHECKS

In our review of cash activity, we noted accounts payable outstanding checks were over one year old. It is important to follow up on long outstanding checks timely so that they may be reissued, voided, or otherwise addressed. The State of Michigan requires entities to escheat unclaimed property, including uncashed checks, once a specified period of time has elapsed.

We suggest implementing a process to monitor old outstanding checks so that appropriate action can be taken timely. We also recommend the checks either be reissued or the checks be sent to escheats as required.

OBSOLETE INVENTORY

Various inventory observations are performed as a normal part of our auditing procedures. We discuss matters with individuals overseeing inventory and make observations of the general condition of inventory during this time. There appears to be multiple items within the City's inventory that could use scrutiny to determine whether those items are obsolete.

Management understands the importance of maintaining and eliminating obsolete inventory, as such, City administration is taking a pro-active approach to this issue. Departments are working on eliminating obsolete inventory by way of disposal of inventory, selling inventory through online auction, and budgeting funds to cover the cost of obsolete inventory in order to remove them from the appropriate inventory system.

OLD ACCOUNTS RECEIVABLE BALANCES

The City maintains certain types of accounts receivable that are as old as 15 years, including, but not limited to, demolition receivables, customer receivables, civil infractions receivable, and cemetery contracts receivable. Given the age of these accounts receivable, there is little likelihood that these receivables will ever be collected. There has been progress made over the past 5 years in this matter, even with the cuts to staffing who would normally perform this function.

We suggest management consider whether any of these receivables are worth pursuing and to consider writing off the remainders.

DEFICIT FUND BALANCES

The Community Development Fund has an unassigned deficit of \$882,353. The SAFER Grant Fund has an unassigned deficit of \$208,934. The Police ELERV Grant Fund has an unassigned deficit of \$8,726. Each of the deficits of these funds is completely offset by deferred inflows of resources, and therefore does not require a deficit elimination plan to be filed.

The Andersen Center Operation Fund has an unassigned deficit of \$86,032. This deficit is the result of operating deficits.

With respect to the above funds that have unassigned deficits offset by deferred inflows of resources for grant funds that have not been received within 60 days of year-end, we recommend the City review the process used to prepare the reimbursement requests from grantor agencies to ensure that City personnel are acting within their power to obtain timely reimbursement. With respect to the Andersen Center Operation Fund, we suggest a deficit elimination plan be filed with the State of Michigan.

UNIFORM GRANT GUIDANCE

The Uniform Grant Guidance was effective for grants awarded after December 26, 2014 and retroactively effective for other grants as determined by grantor agencies and grant award documents (such as the United States Department of Housing and Development with the Community Development Block Grant). The City has implemented some policies and procedures as required by the Uniform Grant Guidance and delayed others when allowable (procurement). The City did not implement all policies in a timely manner and various policies and procedures were not put into writing.

We suggest the City develop a complete written federal procedures manual that outlines policies and procedures for each of the following compliance requirements: financial management systems, payments, allowable costs, period of performance, matching or cost sharing, program income, procurement, equipment and real property, supplies, copyrights, subawards to debarred and suspended parties, monitoring and reporting program performance, financial reporting, retention and access requirements for records, cash management, conflict of interest, payroll and federal timekeeping. We also advise the City begin drafting policies and procedures relating to the delayed procurement requirement as it is required to be in effect by July 1, 2017.

The development of such a manual should make obtaining reliable data for the preparation of the schedule of expenditures of federal awards a more efficient process.

Although the City is short two individuals who would normally have the responsibility of this task, the City does have a plan to have City-wide written procedures developed during the upcoming fiscal year. The procedures are expected to be completed prior to July 1, 2017.