

City of Eastpointe, Michigan

**Federal Awards
Supplemental Information
June 30, 2013**

City of Eastpointe, Michigan

Contents

Independent Auditor's Reports:

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance	4-6
Schedule of Expenditures of Federal Awards	7
Note to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9-12

Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133
Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Eastpointe, 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 Eastpointe, Michigan (the "City") as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 15, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to November 15, 2013.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Plante & Moran, PLLC

Ann Arbor, MI
November 15, 2013

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*

Independent Auditor's Report

To Management, the Honorable Mayor, and
Members of the City Council
City of Eastpointe, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic 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 Eastpointe, Michigan (the "City") as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Eastpointe, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses (see Findings 2013-001 and 2013-002).

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 to be material weaknesses (see Findings 2013-001 and 2013-002).

To Management, the Honorable Mayor, and
Members of the City Council
City of Eastpointe, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Eastpointe, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Eastpointe, Michigan's Response to Findings

The City of Eastpointe, Michigan's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Eastpointe, Michigan's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

Ann Arbor, MI
November 15, 2013

Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance
Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Eastpointe, Michigan

Report on Compliance for the Major Federal Program

We have audited the City of Eastpointe, Michigan's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2013. The City of Eastpointe, Michigan's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Eastpointe, Michigan's major federal program based on our audit of the types of compliance requirements referred to above.

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 Eastpointe, 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Eastpointe, Michigan's compliance.

To the Honorable Mayor and
Members of the City Council
City of Eastpointe, Michigan

Opinion on the Major Federal Program

In our opinion, the City of Eastpointe, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Eastpointe, Michigan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Eastpointe, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 a 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. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Honorable Mayor and
Members of the City Council
City of Eastpointe, Michigan

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

Ann Arbor, MI
November 15, 2013

City of Eastpointe, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through Macomb County, Michigan - Community Development Block Grant (CDBG)	14.218	C2-06-2A	\$ 194,376
U.S. Department of Transportation Highway Safety Cluster - Passed through Macomb County, Michigan:			
State and Community Highway Safety	20.600	PT-12-17	6,401
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	PT-12-14	7,119
U.S. Environmental Protection Agency - Passed through the State of Michigan - Department of Environmental Quality Clean Water State Revolving Fund Loan	66.458	5371-01	1,037,566
U.S. Department of Homeland Security - Passed through Macomb County, Michigan - Homeland Security Grant Program	97.067	2009-SS-T9-0060	<u>26,454</u>
Total federal expenditures			<u>\$ 1,271,916</u>

City of Eastpointe, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2013

Note - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Eastpointe, Michigan under programs of the federal government for the year ended June 30, 2013. Expenditures reported on the schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of the City of Eastpointe, Michigan, it is not intended to and does not present the financial position, changes in net position, or cash flows, if applicable, of the City of Eastpointe, Michigan. Pass-through entity identifying numbers are presented where available.

City of Eastpointe, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
66.458	Clean Water State Revolving Fund Loan

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

Auditee qualified as low-risk auditee? Yes No

City of Eastpointe, Michigan

Schedule of Findings and Questioned Costs(Continued) Year Ended June 30, 2013

Section II - Financial Statement Audit Findings

Reference Number	Finding
2013-001	<p>Finding Type - Material weakness</p> <p>Criteria - Management should record all year-end closing entries in accordance with generally accepted accounting principles (GAAP) prior to the start of the audit.</p> <p>Condition - Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principles.</p> <p>Context - The journal entries included adjustments required for the full accrual presentation of the government-wide statements and other adjustments related to accounts payable, interfund transfers, and grant revenue and expenditures.</p> <p>Cause - The City has experienced staffing restructuring and reassignments over the past several years, resulting in the responsibilities being divided over fewer staff.</p> <p>Effect - Material auditor-proposed journal entries were recorded.</p> <p>Recommendation - The City should implement procedures to ensure that all appropriate journal entries are made prior to the start of the audit. We also recommend the City implement a review process to ensure the proper journal entries are recorded prior to the start of the audit.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will work toward putting a process in place to address the issue.</p>

City of Eastpointe, Michigan

Schedule of Findings and Questioned Costs(Continued) Year Ended June 30, 2013

Section II - Financial Statement Audit Findings (Continued)

Reference

Number

Finding

2013-002 **Finding Type** - Material weakness

Criteria - The City receives Act 51 money from the State of Michigan for the maintenance and improvement of major and local streets. Michigan Public Act 51 limits the transfer of resources from the major streets fund to the local streets fund to 50 percent of the annual major street funding. A transfer of resources greater than 50 percent of the annual major street funding is allowed if certain conditions are met.

Condition - The City transferred resources from the major streets fund to the local streets fund in excess of the allowable 50 percent of the annual major streets funding before all conditions were met. In order to be in compliance with Act 51 in the current year as it relates to the 50 percent transfer limit, the City transferred resources back to the major streets fund from the local streets fund.

Context - Noncompliance with Act 51 can result in the State of Michigan withholding future payments to the City.

Cause - The City prepared and submitted an asset management plan to the State of Michigan's Transportation Asset Management Council; however the plan was not approved prior to year end.

Effect - Noncompliance with Act 51 can result in the State of Michigan withholding future payments to the City.

Recommendation - The City should implement procedures to ensure that all conditions under Act 51 are met prior to transferring funds from the major streets fund to the local streets fund.

Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will work toward putting a process in place to address the issue. In order to be in compliance with Act 51 in the current year as it relates to the 50 percent transfer limit, the City transferred resources back to the major streets fund from the local streets fund.

City of Eastpointe, Michigan

Schedule of Findings and Questioned Costs(Continued) Year Ended June 30, 2013

Section III - Federal Program Audit Findings

None