

**City of St. Clair Shores**

**Single Audit Report**

**June 30, 2016**

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**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 Auditors' Report**

Honorable Mayor and Members of City Council  
City of St. Clair Shores

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of St. Clair Shores as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of St. Clair Shores' basic financial statements, and have issued our report thereon dated December 5, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of St. Clair Shores' 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 of St. Clair Shores' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of St. Clair Shores' 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 and 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2016-001 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2016-002 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of St. Clair Shores' 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*.

### **The City of St. Clair Shores' Response to Findings and Corrective Action Plan**

The City of St. Clair Shores' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The City of St. Clair Shores' response was not subjected to the auditing procedures applied in the audit of the 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeo & Yeo, P.C.

Saginaw, Michigan  
December 5, 2016

**Report on Compliance For Each Major Federal Program;  
Report on Internal Control Over Compliance; and  
Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

**Independent Auditors' Report**

Honorable Mayor and Members of City Council  
City of St. Clair Shores

**Report on Compliance for Each Major Federal Program**

We have audited the City of St. Clair Shores' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of St. Clair Shores' major federal programs for the year ended June 30, 2016. The City of St. Clair Shores' major federal programs are 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of St. Clair Shores' major federal programs 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 St. Clair Shores' 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 each major federal program. However, our audit does not provide a legal determination of the City of St. Clair Shores' compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City of St. Clair Shores complied, in all material respects, with the types of 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, 2016.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-003. Our opinion on each major federal program is not modified with respect to this matter.

City of St. Clair Shores' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective plan. City of St. Clair Shores' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the City of St. Clair Shores 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 St. Clair Shores' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 of St. Clair Shores' 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. *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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-003, that we consider to be a material weakness.

City of St. Clair Shores' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. City of St. Clair Shores' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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 St. Clair Shores, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of St. Clair Shores' basic financial statements. We issued our report thereon dated December 5, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
December 5, 2016

**City of St. Clair Shores**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

Federal Agency Pass-through Agency Program Title	Federal CFDA Number	Federal or Pass-Through Grant Number	Award Amount	Federal Expenditures	Current Year Cash Transferred to Subrecipients
<b>Health and Human Services - USDA, Forest Services</b>					
Urban & Community Forestry	10.675	15-DG-11420004-13	\$ 100,000	\$ 100,000	\$ -
<b>U.S. Department of Housing and Urban Development</b>					
Direct programs - Community Development Block Grant					
Community Development Block Grant Program	14.218	B-13-MC-26-0013	824,530	113,759	-
Community Development Block Grant Program	14.218	B-14-MC-26-0013	821,617	221,439	-
Community Development Block Grant Program	14.218	B-15-MC-26-0013	826,923	826,923	143,310
Total CDBG Entitlement Grants Cluster				1,162,121	143,310
<b>U.S. Department of Justice</b>					
JAG Program Cluster					
2014 Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-1002	12,177	12,177	-
2014 Formula Byrne JAG (COMET)	16.738	2014-H3675-MI-DJ	17,604	4,401	-
Equitable Sharing Program	16.922	MI5072200	N/A	114,607	-
Total U.S. Department of Justice				131,185	-
<b>U.S. Environmental Protection Agency</b>					
Great Lakes Restoration Initiative	66.469	1305HDX054-1314	250,000	224,034	-
<b>U.S. Department of Homeland Security</b>					
Indirect programs - Passed through Macomb County					
2013 Operation Stonegarden	97.067	EMW-2013-SS-00049	N/A	542	-
2014 Operation Stonegarden	97.067	EMW-2014-SS-00059	10,000	8,489	-
2013 Urban Area Security Initiative (UASI)	97.067	R2-2013-81	3,248	506	-
2014 Urban Area Security Initiative (UASI)	97.067	R2-2014-81	N/A	4,007	-
Total U.S. Department of Homeland Security				13,544	-
Total federal awards				\$ 1,630,884	\$ 143,310

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**City of St. Clair Shores**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2016**

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**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of St. Clair Shores under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of St. Clair Shores, it is not intended to and does not present the financial position, changes in net assets, or cash flows of City of St. Clair Shores.

**Note 2 - Summary of Significant Accounting Policies**

**Expenditures**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance or OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, where certain types of expenditures are not allowable or are limited as to reimbursement.

**Indirect Cost Rate**

The City of St. Clair Shores has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3 - Reconciliation to the Financial Statements**

Federal revenue per the financial statements	
Governmental funds	\$ 1,260,689
Enterprise funds	224,034
	1,484,723
Less:	
Revenue received under the equitable sharing program*	(46,538)
Deferred inflows of resources - prior year	(294,027)
Difference in timing of when program income is received and spent**	(6,777)
	(347,342)
Add:	
Expenditures incurred under the equitable sharing program*	114,607
Deferred inflows of resources - current year	378,896
	493,503
Total expenditures of federal awards	\$ 1,630,884

**City of St. Clair Shores**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2016**

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\* Under the equitable sharing program, policing agencies seize assets which are pooled, and then allocated to participating agencies. Participating agencies are allowed to carryover balances of the funds allocated to them from year to year as expenditures will not always equal the amounts received for any given year.

\*\* Program income received which is related to the Community Development Block Grant is recorded as federal revenue. The program income is required to be spent on allowable as identified by the grant. The program income received in some years exceeds the amount spent, and is carried over into the next fiscal year.

**Note 4 - Subrecipients**

Of the federal expenditures presented in the Schedule, the City provided federal awards to subrecipients under CFDA 14.218 in the amount of \$143,310.

**City of St. Clair Shores**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:  
Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?   X   Yes      No
  
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?   X   Yes      None reported
  
- Noncompliance material to financial statements noted?   X   Yes      No

*Federal Awards*

Internal control over major programs:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)?   X   Yes      No

**City of St. Clair Shores**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**

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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant Entitlements
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS**

**Finding 2016-001 and 2015-001 Material Weakness**

**Criteria:** Management is responsible for the fair presentation of the financial statements in accordance with generally accepted accounting principles.

**Condition:** During the reconciliation process for federal grants, the City failed to properly record the amount due from the federal government at fiscal year end. This caused the receivable asset and deferred inflows of resources to be understated by approximately \$276,000 prior to the proposed audit adjustment.

**Cause and Effect:** The internal control procedures over the review of this calculation was not operating effectively. The adjustment, which had a material effect on the financial statements, was posted as a result of audit procedures in order to fairly state the balances.

**Recommendation:** The City should implement procedures to ensure that all appropriate journal entries are made and independently reviewed prior to the start of the audit.

**Views of Responsible Officials:** Management agrees with the finding.

**Corrective Action Plan:** See attached corrective action plan from management.

**City of St. Clair Shores**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**

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**Finding 2016-002 Significant Deficiency**

**Criteria:** Uniform Grant Guidance requires written procedures covering the following: financial management systems, cash management, payments, allowable costs, period of performance, federal timekeeping, 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, and subrecipient monitoring.

**Condition:** The City has not developed the required written procedures.

**Cause and Effect:** Management was unaware of the requirement to establish federal written procedures.

**Recommendation:** The City should develop and implement the required federal written procedures.

**Views of Responsible Officials:** Management agrees with the finding.

**Corrective Action Plan:** See attached corrective action plan from management.

**City of St. Clair Shores**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2016-003 and 2015-003 – Material Weakness and Noncompliance - Procurement**

<b>Program Information:</b>	Community Development Block Grant (CDBG), U.S. Department of Housing and Urban Development, B-13-MC-26-0013, B-14-MC-26-0013, B-15-MC-26-0013, CFDA # 14.218
<b>Criteria:</b>	Uniform Grant Guidance requires organizations to verify that vendors who are awarded contracts in excess of \$25,000 are not debarred, suspended, or otherwise excluded via the website SAM.gov.
<b>Condition:</b>	The City did not review the federal database of suspended and debarred vendors related to contracts in excess of \$25,000 to ensure selected vendors were not suspended or debarred. While the City did not independently perform the required search prior to selection of vendors, the City maintained frequent contact with the engineering firm, who claimed they were performing the required search. No documentation was available to substantiate this claim. Additionally, the City did perform the check on the federal website subsequently and noted that the vendors selected were not suspended or debarred and hence there were no questioned costs.
<b>Questioned Costs:</b>	None
<b>Cause and Effect:</b>	Lack of procedures in place to ensure that grant administrators are checking for suspended and debarred vendors could result in prohibited vendors receiving federal contracts.
<b>Recommendation:</b>	We recommend that the City institute a procedure to identify circumstances when suspended and debarred searches are required and retain documentation that such searches are performed prior to executing the related contracts.
<b>Views of Responsible Officials:</b>	Management agrees with the finding
<b>Corrective Action Plan:</b>	See attached corrective action plan from management.

**City of St. Clair Shores**  
**Schedule of Prior Year Findings and Questioned Costs**  
**June 30, 2016**

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**GOVERNMENT AUDITING STANDARDS FINDINGS**

**Finding 2015-001- Material Weakness**

**Criteria:** The City is required to present its comprehensive annual financial report (CAFR) in accordance with generally accepted accounting principles (GAAP) as applicable to governmental entities

**Status:** The City corrected issues related to the recording of other postemployment benefit (OPEB) liabilities. However, inappropriate account receivable and deferred inflow of resources treatment remains an issue. See current year finding 2016-001.

**Finding 2015-002- Material Weakness**

**Criteria:** The City is required to identify all interfund activity within its financial records to ensure treatment in the comprehensive annual financial report (CAFR) is in accordance with generally accepted accounting principles (GAAP) as applicable to governmental entities.

**Status:** Corrective action taken.

**FEDERAL AWARD FINDINGS**

**Finding 2015-003 - Material Weakness and Noncompliance**

**Criteria:** OMB Circular A-102 requires organizations to verify that vendors who are awarded contracts in excess of \$25,000 are not debarred, suspended, or otherwise excluded via the website SAM.gov.

**Status:** Continues to be a finding in the current year, see current year finding 2016-003.

**Finding 2015-004 - Significant Deficiency**

**Criteria:** Section 4 of the grant award letter requires the City to establish separate accounts to track all costs incurred related to this grant and OMB Circular A-133 requires that all assets purchased with federal funds are required to be separately identified and safeguarded.

**Status:** Finding has been corrected.

**City of St. Clair Shores**  
**Schedule of Prior Year Findings and Questioned Costs**  
**June 30, 2016**

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**Finding 2015-005 – Material Weakness and Noncompliance**

**Criteria:**

On December 19, 2014, within 79 FR 76078 (the "Joint Interim Final Rule"), HUD amended Title 24, Subtitle A, Part 84, §84.1 that deals with the applicability of 2 CFR Part 200. Subparagraph (b) of this section says "federal awards made prior to December 26, 2014 will continue to be governed by the regulations in effect and codified in 24 CFR part 84 (2013 edition) or as provided under the terms of the federal award. Where the terms of a federal award made prior to December 26, 2014 state that the award will be subject to regulations as may be amended, the federal award shall be subject to 2 CFR Part 200."

In accordance with Notice SD-2015-01 issued on February 26, 2015 by HUD, which provides transition guidance to 2 CFR Part 200, the grant agreements for some HUD programs (e.g., Community Development Block Grant, HOME Investment Partnerships, Emergency Solutions Grants, Indian Housing Block Grants, Native Hawaiian Block Grants, Indian Community Development Block Grants) incorporate the regulations "as now in effect and as may be amended from time to time" and, therefore, 2 CFR part 200 will be applicable to these grants on 12/26/14.

**Status:**

Finding has been corrected.

**City of St. Clair Shores**  
**Corrective Action Plan**  
**June 30, 2016**

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**Mayor**  
Kip C. Walby  
**Mayor Pro-Tem**  
Chris M. Vitale  
**City Manager**  
Michael E. Smith

**City of St. Clair Shores**  
27600 Jefferson Avenue St. Clair Shores, MI 48081-2075  
Phone: (586) 445-5200 Fax: (586) 445-5245 [www.scsmi.org](http://www.scsmi.org)



**Council Members:**  
Peter A. Accica  
John D. Caron  
Ronald J. Frederick  
Peter A. Rubino  
Candice B. Rusie

To Whom It May Concern:

Re: Corrective Action Plan

We have prepared this letter in response to the issues identified as a result of the City's annual audit. Below we have included a summary of the corrective actions taken by the City's management to address the issues identified in the Single Audit Report.

***Finding 2016-001 and 2015-001: Accounts receivable from the Federal government were not properly recorded.***

*Contact person:* Douglas Haag, Finance Director and Laura Stowell, Controller

*Planned Corrective Actions:* The Finance Director and Controller have updated our year end checklist for audit schedules to ensure the City is in compliance and that the correct journal entries are made at year end.

*Implementation Date:* November, 2016.

***Finding 2016-002: The City did not implement written grant procedures as required by the Uniform Grant Guidelines (UGG). The covered procedures include financial management systems, cash management, payments, allowable costs, period of performance, federal timekeeping, 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 and subrecipient monitoring.***

*Contact person:* Douglas Haag, Finance Director and William Gambill, Assistance City Manager

*Planned Corrective Actions:* The Finance Director and Assistant City Manager will develop the above comprehensive written procedures that are required by UGG.

*Implementation Date:* No later than June, 2017.

**City of St. Clair Shores**  
**Schedule of Prior Year Findings and Questioned Costs**  
**June 30, 2016**

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***Finding 2016-003 and 2015-003: The City did not perform a timely check on the federal website of suspended and debarred vendors prior to awarding a contract in excess of \$25,000 to Ashton Associates.***

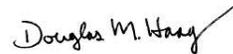
*Contact person:* Douglas Haag, Finance Director and William Gambill, Assistance City Manager

*Planned Corrective Actions:* The Finance Director and Assistant City Manager will develop the above in conjunction with the comprehensive written procedures that are required by UGG.

*Implementation Date:* December, 2016.

If you have any further questions feel free to contact me.

Sincerely,



Douglas M. Haag  
Finance Director  
Phone: 586-447-3325  
Email: haagd@scsmi.net