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November 10, 2003

Honorable Mayor and Members
of the City Council
City of Inkster
2121 Inkster Road
Inkster, Michigan 48141

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Inkster for the year ended June 30, 2003. As a result of our audit, we offer the following comments and recommendations:

GASB 34

As we have previously discussed with you, the Government Accounting Standards Board (GASB) has issued a major new pronouncement (GASB Statement No. 34) that has drastically changed the way the City's financial statements will look. For the City of Inkster, this pronouncement was effective, and was adopted as of July 1, 2002. Some of the more significant changes are:

- The addition of a Management's Discussion and Analysis section to the financial statements
- The preparation of full accrual, government-wide financial statements which include all long-term assets and liabilities
- The recording and depreciation of all governmental assets, including infrastructure (roads, sidewalks, etc.)
- The functional reporting of revenue and expenses

You will notice these changes reflected in the June 30, 2003 financial statements. We would be happy to discuss any questions you have related to this new format.

Pension Matters

We continue to draw your attention to the investment performance of the City's pension funds. For the current fiscal year, the funds experienced returns of 1% and 7% for the Police & Fire Pension Fund and the General Employee's Pension Fund, respectively. As a result of market conditions for the past few years and continued disappointing returns, the Police and Fire Pension Fund investment results continue to be well below the actuarially assumed rate of return. Because of this, the actuarial value of the plan's assets (the value of the assets if all assumptions had been met to date) significantly exceeds the fair market value of the plan's assets (the actual value according to quoted investment prices). At June 30, 2002 (the date of the most recent actuarial valuation), the fair market value of the Police and Fire Plan's assets were approximately $4,400,000 less than the actuarial value. As mentioned last year, to reduce the gap between the fair market value and the actuarial value, there will likely be required increases in future contributions.

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Pension Matters (continued)

We encourage the City to work with the pension boards to closely monitor the activity of these funds, consider the appropriateness of the actuarial assumptions, and make adjustments as necessary.

In addition, the current year contribution to the General Employee's Retirement Fund was 69% of the actuarially calculated recommended contribution, due, in part, to the timing of the receipt of the actuarial information related to the new contribution rate. This factor will likely also have a bearing on future contribution calculations.

Federal Awards

In testing the federal awards revenue received by the City in accordance with OMB Circular A-133, we selected the Community Development Block Grant (CDBG) program for detailed testing. As disclosed in our report, we noted several instances of non-compliance when reviewing the participant files. We have been informed that the City has performed all of the various required inspections. However, in many instances, while documentation for one or more final inspection was found in the participant files, documentation for all of the required inspections was not available for review. We recommend that the correction of this issue be given very serious attention as the availability of these monies significantly impacts major development projects which are being funded, in part, by CDBG awards.

ACCOUNTING MATTERS

Bank Reconciliations

During the past year, monthly bank reconciliation procedures were not performed regularly. We believe that it is imperative that bank reconciliation procedures be implemented and regularly performed as they are a cornerstone of any strong internal control system. We understand this situation was largely a result of the conversion from manual posting of receipts to computerized postings and that the identification and correction of numerous system posting and input errors hampered the City staff's ability to reconcile the general ledger activity to the bank activity. The City staff has now addressed several of the posting errors and is training staff in the proper use of the system. The City staff intends to restore the reconciliation status to a current basis in the near future.

Accounting Procedures

The significant number of new City projects and initiatives, County requirements, and the recent staffing modifications, have added to the difficulty in maintaining certain accounting procedures (timely billings, periodic account reconciliations and regular account detail maintenance) on a current basis. Given the need for accurate financial information in these difficult economic times, we urge the City to continue in its efforts to maintain its accounting information flow and systems controls.

Property Tax Remittance

During the current year the City did not remitting property taxes to other governmental agencies in a timely matter. Property taxes should generally be remitted ten working days after the 1st and the 15th of the month with 10% of the collection held until tax settlement. During the current year we noted several months in which property taxes were only remitted once due to delays in posting receipt activity. We would suggest the City review its procedures for remitting property taxes to ensue taxes are being remitted timely.

Water and Sewer

The City's water and sewer fund currently owes Wayne Country approximately 1.2 million dollars for several years' CSO operation and maintenance charges. It is our understanding that County has provided the City with sufficient documentation to support these charges and that the City will initiate payments against the liability in the near future. The City should review its cash situation in the water and sewer fund and plan appropriately for these payments.

Revenue Sharing – Current Issues

The City has and will continue to feel the effects of the slow down in the State's economy. State shared revenue currently accounts for approximately 32% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2002 and 2003 were less than the State's original projections.

The previous Governor's original budget recommendation for fiscal year 2002/2003 was to keep total revenue sharing payments to cities, villages, townships, and counties frozen at the fiscal year 2001/2002 level. This recommendation included a reduction of approximately $112 million from what the statutory formula would have otherwise allowed. As was well publicized, following the introduction of the previous Governor's fiscal year 2002/2003 budget there was an attempt in July 2002 to veto all statutory revenue sharing from the State's 2002-2003 budget. The attempt was not successful and the veto was overridden by the Michigan Legislature. However, in December 2002, revenue sharing was cut another $53 million by an Executive Order of the previous Governor.

Currently, the budget proposed for the State's 2003/2004 fiscal year included another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels. This version of the budget was ultimately adopted by the Michigan Legislature. While the State's budget has been approved for their 2003/2004 fiscal year, it includes several very significant assumptions which may not be realized. In fact, during the impromptu October 14, 2003 Consensus Revenue Estimating Conference, it was announced that the State is currently facing a $900 million shortfall for the 2003/2004 fiscal year. It is unclear how this deficit will further affect state shared revenues. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

Revenue Sharing – Current Issues (continued)

Between the City's 2001 and 2003 year ends, the City's state shared revenue decreased by approximately $458,000 to 91.25 percent of 2001 levels. The City's 2004 budget anticipated an additional decrease in state shared revenues, but until the State's budget planning is completed, it will be difficult to determine if the City's budget is completely accurate.

We will continue to monitor this situation and keep you posted as developments occur.

Property Tax Audit Programs

The State's fiscal year 2003/2004 General Government budget contains an additional appropriation of $7,000,000 to fund personal property tax audits. This may be a program that the City should consider monitoring closely. The Michigan Department of Treasury is responsible for developing the guidelines of the program, and we will be sure to notify you as we become aware of the Treasury's progress in this area.

Public Act 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming a homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

We understand that the City, working through Wayne County, has initiated involvement in both of these programs.

Municipal Finance Act Revisions – Reminder

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (June 30, 2003) and is good for one year thereafter. The Michigan Department of Treasury has also indicated that a separate qualifying statement may be required for each component unit of the City (i.e. a separate qualifying statement for the Downtown Development Authority, etc.).

Reportable Conditions

Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable Condition (continued)

In planning and performing our audit of the financial statements of the City of Inkster for the year ended June 30, 2003, we considered the City's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on the internal controls. The purpose of an audit is to report on the financial statements, rather than provided assurance on the internal control structure; however, we would consider the items mentioned under the "Bank Reconciliations" and the "Federal Awards" sections of this letter to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

We would like to thank the City staff again this year for the cooperation and assistance they provided during the audit. If you wish to discuss any of the items included in this letter, or any other matters, please contact us at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC

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