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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

To the City Council
Village of Grosse Pointe Shores, A Michigan City
Wayne and Macomb Counties, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Grosse Pointe Shores, A Michigan City (the City) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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 identified below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 below to be a material weakness.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries were proposed by the auditors to properly record long-term debt refunding. These misstatements were not detected by the City's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the City's general ledger.

Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation of the financial statements, including the proper recording of journal entries to assure the trial balances from which the financial statements are prepared are in conformity with U.S. generally accepted accounting principles.

We recommend that the City take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 the following instances of noncompliance required to be reported:

UNFAVORABLE BUDGET VARIANCES

As noted in the notes to the required supplementary information of the financial statements, some of the activities and funds of the City exceeded the amounts appropriated. The variances noted were in the General Fund. A similar issue was noted and reported in our audit comments last year. Michigan Public Act 621 of 1978, as amended, provides that the City adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the City monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

FUND DEFICIT

At the end of the fiscal year, the Marina Fund reported a negative unrestricted net position. Michigan Public Act 140 of 1971 provides that the local unit of government ending its fiscal year in a deficit condition shall formulate a deficit elimination plan. As a result of the fund deficit, the City is required to submit a deficit elimination plan to the Michigan Department of Treasury.

We recommend that the City utilize the budgetary controls to include all expenditures and/or transfer funds as needed to alleviate deficits.

This communication is intended solely for the information and use of management, City Council, and others within the Village of Grosse Pointe Shores, A Michigan City, and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 18, 2014