

Independent Auditors' Report on Compliance with Public Act 51 of 1951, as Amended (Act 51)

December 22, 2017

Honorable Mayor and
Members of the City Commission
City of Battle Creek, Michigan

Performance Audit Report

We have audited the compliance of the *City of Battle Creek, Michigan* (the "City") with the requirements described in Michigan Public Act 51 of 1951, as amended ("Act 51" or the "Act") that could have a direct and material effect on the determination of whether the City expended funds in compliance with the Act for the year ended June 30, 2017.

Objectives, Scope, and Methodology

Management is responsible for compliance with Act 51 and related regulations. The objective of our performance audit is to determine whether the City expended its Act 51 funds in compliance with the Act.

We conducted our audit of compliance in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the requirements of Public Act 298 of 2012.

Our methodology included examining selected transactions for the year ended June 30, 2017. To accomplish our objectives, we reviewed Act 51, as amended, to identify those compliance requirements that, in our judgment, could have a direct and material effect on the City's compliance with the Act.

The areas addressed in our performance audit included: (1) allowability of expenditures; (2) classification and reporting of expenditures on the Act 51 report filed for the year ended June 30, 2017; (3) allowability of transfers between funds; (4) competitive bidding procedures for construction contracts in excess of \$100,000; and (5) administrative expenditure limitations. Due to the significant number of transactions incurred during the year ended June 30, 2017, our testing methodology included drawing representative samples of Act 51 expenditures reported during the period to support our conclusions.

We believe that our audit provides a reasonable basis for our conclusions regarding the City's compliance with Act 51. However, our audit does not provide a legal determination of the City's compliance.

Conclusion

Based on the results of our audit, we conclude that the City expended its Act 51 funds in compliance with the Act, in all material respects, for the year ended June 30, 2017.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with Act 51. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on the determination of whether the City expended funds in compliance with Act 51, to determine the auditing procedures that are appropriate in the circumstances for the purpose of reaching a conclusion on compliance with Act 51, 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 Act 51 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 Act 51 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 Act 51 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 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. Given these limitations, during our audit 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.

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 Public Act 298 of 2012. Accordingly, this report is not suitable for any other purpose.

Rehmann Lohman LLC

CITY OF BATTLE CREEK, MICHIGAN

Schedule of Findings and Responses

For the Year Ended June 30, 2017

SECTION I - MATERIAL WEAKNESSES

None Reported.

SECTION II - SIGNIFICANT DEFICIENCIES

None Reported.

SECTION III - COMMENTS AND RECOMMENDATIONS

Employee Timesheet Evidence of Review

Department of Public Works (DPW) employees complete their daily timesheets, keeping track of their hours worked. At the end of the pay period, the Director or Supervisor summarizes each employee's daily time sheets into a database that shows all of the hours by account number for the purpose of allocating salaries amongst the various projects and hours charged to each piece of equipment utilized. We noted one instance where an employee's timesheet did not have evidence of review. We recommend that all DPW timesheets be signed by the employee and the Director or Supervisor as evidence of review and approval.

Equipment Rental Rates

On an annual basis, the Michigan Department of Transportation (MDOT) publishes equipment rental rate schedules to charge costs to the Act 51 program. The City utilizes these rates and annually updates a database for the changes to these rates. During our testing we identified that the radio rental rates were not updated from the 2015 to the 2016 calendar year rates released by MDOT. In addition, we noted there is no evidence of review being documented after the rates are updated in the City's database. We recommend that a formal review process of the database be implemented to ensure the proper rates are being updated each year.

