

**REHMANN ROBSON***Certified Public Accountants*

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September 27, 2005

To the Honorable Mayor and City Council
City of Troy, Michigan

In planning and performing our audit of the financial statements of the *City of Troy, Michigan*, for the year ended June 30, 2005, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated September 27, 2005, on the financial statements of the *City of Troy, Michigan*.

The accompanying comments and recommendations are intended solely for the information and use of the Mayor and City Council, Management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

We would like to thank the staff and management of the *City of Troy, Michigan* for their assistance and cooperation in completing the audit.

Memorandum

INTERNAL CONTROLS

1) PAYROLL

During our audit we noted that payroll checks are printed on Wednesdays and kept in a locked cubicle overhead bin instead of in a fireproof vault overnight.

This practice exposes the City to undue risks, including the risk of loss to fire as well as to theft (the overhead bins are easily accessible by applying minimal force).

Recommendation

We recommend that the City establish a policy of maintaining payroll checks in a fireproof vault overnight and at all times prior to their distribution and that access to the vault be limited to selected individuals.

2) TREASURY DEPOSIT

During our procedures, we noted instances in which cash receipts from Sylvan Glenn and the Aquatic Center were not remitted to Treasury in a timely manner.

We believe that this condition increases the City's risk of misappropriation or loss.

Recommendation

We would recommend that the City consider establishing a policy dictating the importance of remitting the cash receipts at the end of every business day to the Treasurer's office.

UPCOMING PRONOUNCEMENTS

3) POSTEMPLOYMENT HEALTH CARE

In April 2004 the Governmental Accounting Standards Board issued Statement No. 43 *Financial Reporting of Postemployment Benefits Other Than Pension Plans*.

The standard will requires the City to obtain an actuarial valuation of its postemployment benefits other than pension plans, establish a separate trust for these benefits and begin funding this long-term obligation based on the actuarially determined required contribution.

Status

The City has had a policy for pre-funding its postemployment benefits over the past several years and as of the last actuarial valuation, indicates that the City is approximately 90% funded.

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In addition, it is our understanding that the City has established a separate trust beginning in July 2005 in which all future contributions will be remitted.

A hard copy of the Comprehensive Annual Financial Report for the Year Ended June 30, 2005 is included in your agenda packet.