

1929 Hopedale Dr.
Troy, MI 48085-3346
(248) 879-0967
Victor@Lenivov.com

July 25, 2007

Thomas E. Darling, CPA
The Rehmann Robson
5750 New King St
Troy, MI 48098

Dear Sir:

I am writing this letter to you since your firm will be performing the City of Troy Financial Audit for the year 2006-2007 which will include a financial audit of the Troy Downtown Development Authority (TDDA). I wish to bring to your attention several violations of state law that the TDDA has committed as well as potential fraudulent activities that have occurred and continue to occur each year.

For the record, I am a candidate seeking election to the Troy City Council in this years November election. My concerns with how the TDDA has used Tax Increment Finance Revenues predate any of my current political activities. I have questioned some of the practices of the TDDA since 1998. Managements' responses have never directly countered my allegations but have rested upon the fact that 1) the financial audits have not turned up illegal transactions and 2) that outside legal and bond council have stated that what the TDDA has and is doing is legal and therefore my claims are without merit. Yet in all those responses, the actual allegations and facts that I have presented have never been contradicted or shown to be false. On my web page <http://Lenivov.com/TDDA.aspx> I have provided some of the history and documents issued related to my allegations that the TDDA is violating the statute by receiving more TIF revenues than they are legally entitled to receive and the potential fraud that may have occurred as result.

The reason I am writing to your firm is twofold, 1) Managements response that the financial audits are proof that what the TDDA has been doing is legal and 2) based on information I read in the "**Bulletin for Audits of Local Units of Government**" issued by the Michigan Department of Treasury, the auditing firms legal responsibility to ensure the legality of the financial transactions that do occur. This is the first time I am asking the auditors to look at the legality of the financial transactions of the TDDA.

Although you are well aware of the contents of the Bulletin, I am reprinting some of the information taken from the bulletin below to emphasize the role the auditing firm has to ensure the legality of the financial transactions that occur and its role in reporting suspected violations.

Independent CPAs should be aware that while their client relationships are with the legislative body or officials of the local unit, their **basic responsibility is to all users of the financial reports**. Without confidence in the integrity of financial statements, there can be no confidence in government.

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Reports to be rendered by the independent CPA on each fund, agency and/or operation in order to comply with the above provisions of the law are as follows:

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2) **Report on Internal Control; Management Letter; or Report of Comments and Recommendations**--The report of comments and recommendations shall include a description of improper, illegal or other actions disclosed by the independent CPAs tests and reviews in connection with their audit of the financial statements. Examples of the types of actions, which should be considered in the preparation of this report, are:

a) Lack of action on previous reports of comments and recommendations by the independent CPA;

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g) Noncompliance with state statutes, laws, rules and regulations as outlined in the "Auditing Procedures" section of this bulletin (or any other known to the independent CPA) under which the funds, agencies and/or operations of the local unit of government were created and are functioning. Please note Appendix H in planning the compliance portion of the audit;

h) Indication of possible fraud or dishonesty;

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4) **Reports on Findings of Suspected Fraud and/or Embezzlement**--During the course of an engagement, the independent CPA should be constantly aware of the possibility of fraud and/or embezzlement. SAS 54 and 82 should be followed where applicable. **If the possibility of any fiscal irregularities, defalcation, misfeasance, nonfeasance or malfeasance come to the auditor's attention, an "oral report" should be immediately made to the Local Audit and Finance Division of the Michigan Department of Treasury.** Materiality should not be considered when notifying Local Audit and Finance Division about a potential problem. This oral report should be promptly followed up by a written report to the Local Audit and Finance Division of the Michigan Department of Treasury, disclosing the independent CPAs findings.

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To avoid any possible conflict with the professional ethics of the independent CPA pertaining to the client relationship, the local unit of government should give written permission to the independent CPA to make the disclosures required by these reports, prior to commencing their audit. Preferably, this permission should be included in the engagement letter or contract for audit. The independent CPA should not discuss any suspected fraud and/or embezzlement with any representative of the local unit of government without first contacting the Local Audit and Finance Division. Similarly, the report of "comments and recommendations" should not refer to suspected fraud or embezzlement. However, the report can refer to the matter in "general" terms by stating that such a situation has been referred to the Michigan Department of Treasury.

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The Michigan Department of Treasury has prepared this bulletin with the advice and cooperation of the Michigan Committee on Governmental Accounting and Auditing. Audits of local units of government in Michigan are to be audited in compliance with the provisions of the bulletin, in addition to generally accepted auditing standards.

The independent CPA should be aware that they are obligated to follow the provisions in the bulletin. Failure to do so is an act discreditable to the profession in violation of Rule 501, unless the member discloses in their report the fact that such requirements were not followed and the reasons therefore.*

*Source--Interpretation 501-3, American Institute of Certified Public Accountants, Professional Ethics Division

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APPENDIX H

PLANNING THE COMPLIANCE PORTION OF AN AUDIT

Audits of State and Local Governmental Units

Chapter 3, paragraphs 3.14 summarizes background information useful in planning an audit of a unit of government. The following are selected items from the list that relate to statutory authority and that are necessary to perform the compliance portion of the audit:

- The form of government
- Laws, statutes, and regulations governing the general operations of the governmental unit
- The nature of any joint ventures
- Primary sources of revenue
- The nature of any compliance auditing requirements

Paragraph 3.15 states:

The forgoing information generally can be obtained from authorizing statutes, charters, budget documents, recent official statements, prior comprehensive annual financial reports, the request for proposal, other documents, and discussions with key members of management.

Paragraph 3.18 states:

In developing an audit plan, the auditor should consider factors influencing the risk of errors, fraud, or illegal acts causing financial statements to be materially misstated. This should include an evaluation of the following factors:

- The existence of laws, rules, and regulations that may have a direct and material effect on the amounts reported in the financial statements.

(End of the bulletin extracted items)

Public Act 197 of 1975 is the State Statute that governs Downtown Development Authorities in Michigan. The Troy Downtown Development Authority has violated this act in two ways. 1) They are capturing more tax increment revenues than they are legally entitled to and 2) Surplus tax increment revenues are not being reverted back to the taxing authorities as required by law.

Allegation One, collecting more TIF revenues than the TDDA is entitled to. I refer you to the web page mentioned above that contains several of my letters that go into detail on this allegation. There is NO dispute that TIF revenues are only to be collected from the specified development area. Briefly, the original Development Plan and its associated Tax Increment Financing Plan, specified development areas that were only a small portion of the TDDA district. Development Plan #2 and Tax Increment Financing Plan #2 amended the original plans to add

two new development areas and projects. In total, they still were only a portion of the entire TDDA district. In 1999, I questioned why they were collecting tax increment revenues from the entire district when the TDDA could only legally collect the tax increment revenues from the development areas. The TDDA addressed this by stating in Development Plan #3 and Tax Increment Plan #3 (and subsequent plans 4,5, & 6) that the first development plan specified the entire district as the development area, a false and fraudulent statement. Please obtain and read the first three Development Plans to verify this accusation and read the documentation posted on the web page for a detailed discussion on this issue. A relevant point as far as TIF revenues collected during the 2006-2007 fiscal year by the TDDA is that Development Plans 3, 4, 5 & 6 NEVER added any new development areas. The ONLY development areas are those defined in Development Plans 1 & 2.

My second allegation concerns violation of MCL 125.1665 which states:

125.1665 Transmitting and expending tax increments revenues; reversion of surplus funds; abolition of tax increment financing plan; conditions; annual report on status of tax increment financing account; contents; publication.

Sec. 15. (1) The municipal and county treasurers shall transmit to the authority tax increment revenues.

(2) The authority shall expend the tax increment revenues received for the development program only pursuant to the tax increment financing plan. Surplus funds shall revert proportionately to the respective taxing bodies. These revenues shall not be used to circumvent existing property tax limitations. The governing body of the municipality may abolish the tax increment financing plan when it finds that the purposes for which it was established are accomplished. However, the tax increment financing plan shall not be abolished until the principal of, and interest on, bonds issued pursuant to section 16 have been paid or funds sufficient to make the payment have been segregated.

The surplus (tax increment revenue) funds are to revert back to the taxing bodies proportionately. A review of last years audit shows that two fund balances exist: a Reserved Debt Service fund and an Unreserved fund. The revenue in the Unreserved fund reflects the surplus that should have reverted back to the taxing authorities. During the discussion at the December 2006 TDDA meeting, this fund was said could be used for anything the TDDA wanted to use it for. This contradicts the statute that states TIF revenues can only be used on projects specified in the Development plans. What the TDDA does is retain surplus funds until they come up with a new Development Plan that they then use those funds on, a clear violation of the law and the Dept. of Treasury policy concerning revenues raised by one plan are NOT to be used to pay for projects in another plan..

Please feel free to contact me if you have any questions. I look forward to seeing the 2006-2007 Audit Report when it is finalized and available for public viewing. I am sure your firm will follow the guidelines specified in the "Bulletin for Audits of Local Units of Government".

Respectfully,

Victor Lenivov