

December 16, 2016

To the Village Council  
Village of Vicksburg

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the remaining fund information of the Village of Vicksburg for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 3, 2016. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Vicksburg are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2016. We noted no transactions entered into by the Village of Vicksburg during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were capital asset depreciation and the defined benefit pension plan liability, and changes therein.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Village's capital assets. The defined benefit pension plan liability, and changes therein, were based on actuarial assumptions and the use of a specialist. We evaluated the key factors and assumptions used to develop the capital asset depreciation and the pension plan liability, and changes therein, in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Audit Adjustments*

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 16, 2016.

#### *Other Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Vicksburg's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### **Other Matters**

We applied certain limited procedures to management's discussion and analysis, the budgetary comparison schedules, and the pension schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the balance sheet and statement of revenues, expenditures, and changes in fund balances of the component units, the budgetary comparison schedule for the component units, and the schedules of bond retirement and annual interest requirements (supplementary information), which accompany the financial statements but are not RSI. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### **Communication Regarding Internal Control**

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Vicksburg as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Vicksburg's internal control over financial reporting (internal control) to determine the 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 Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village'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. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we have identified deficiencies in internal control that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Village of Vicksburg's internal control to be material weaknesses.

Material audit adjustments and financial statement preparation:

*Criteria:* All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e. maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e. external financial reporting).

*Condition:* We identified and proposed several material audit adjustments that management reviewed and approved. Adjustments were recorded to:

- Adjust receivables at year end
- Adjust payables at year end
- Adjust cash balances at year end
- Adjust deferred outflow of resources balances
- Adjust net pension liability
- Convert the fund-based data necessary to prepare the government-wide financial statements.

As is the case with many small and medium-sized governmental units, the Village has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the Village's internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Village's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. This is a repeat finding.

*Cause:* This condition was caused by the Village's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the Township to perform this task internally because outsourcing the task is considered more cost effective.

*Effect:* The Village's accounting records were initially misstated by amounts material to the financial statements. In addition, the Village lacks complete internal controls over the preparation of its financial statements in accordance with GAAP, and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

*Auditor's Recommendation:* We recommend that management continue to monitor the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft of the Village's annual financial statements versus contracting with its auditor for these services.

*Management Response:* Management has made an ongoing evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements in accordance with GAAP, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so. Management will continue to review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

#### Cash reconciliations:

*Condition and criteria:* The Village's cash accounts were not reconciled to their respective general ledger control accounts in a timely manner. Performance of the periodic reconciliation assures documentation of end-of-period bank account balances and can identify missing or incorrect entries.

*Effect:* As a result of this condition, the Village's accounting records were initially misstated by amounts that were material to the financial statements.

*Cause:* Reconciliations, including recording of necessary adjustments, were not completed on a timely basis.

*Auditor's Recommendation:* Reconciliations between the bank accounts and the general ledger should be performed monthly. Reconciliations should be prepared in a standardized format and all reconciling items should be fully explained and supported. Any entries necessary to correct the general ledger balances should be made on a timely basis.

*Management Response:* Management agrees that timely and accurate cash reconciliations will improve controls over the Village's cash accounts, which will enhance management's ability to make informed decisions. To that end, management presented a resolution to the Village Council to implement a banking system that utilized cash-pooling. The resolution was passed by the Village Council and the updated banking system is supported by management's internal software to assist in cash reconciliations. An internal policy was put into effect in November 2016 that requires the Village Treasurer reconciling all accounts monthly and to have these reconciling reports reviewed by the Clerk, along with approved by the Village Manager. Training and interim audit tests will occur that first 4 months of 2017 by our external auditor to ensure the Village's cash accounts are reconciled to their respective general ledger.

Noncompliance with payroll reporting and payroll tax deposit requirements:

*Condition and criteria:* Policies and procedures over payroll reporting and payroll tax deposits were not effective. All employers are charged with proper reporting and timely remittance of taxes belonging to other units of government.

*Effect:* Payroll reporting was not filed according to IRS requirements and payroll tax deposits were not made in a timely manner causing the Village to incur substantial penalties.

*Cause:* Policies to ensure accurate and timely payroll reporting and payroll tax deposits were not implemented. These policies were also not effectively monitored.

*Auditor's Recommendation:* Responsibilities for the preparation and review of required filings should be set forth and adequately communicated to assure compliance.

*Management Response:* Management agrees that timely and accurate payroll reporting is essential. New staff and accounting software are now in place to assure compliance with federal and state filing requirements. The procedures over payroll reporting and payroll tax deposits have been reviewed and updated. An outside payroll firm has been hired to finalize the Village payroll and submit proper, timely reports to ensure compliance with payroll reporting and payroll tax deposit requirements. The payroll firm will begin with the payroll of January 9, 2017. Employees will be held to the standards set forth within the policy and procedures.

Journal entry preparation, review, and approval:

*Condition and criteria:* Policies and procedures over the preparation, review, and approval of journal entries were not effective.

*Effect:* Journal entries were prepared and entered into the general ledger system without proper review and approval.

*Cause:* Policies to ensure accurate and appropriate postings to the general ledger were not implemented. These policies were also not effectively monitored.

*Auditor's Recommendation:* All journal entries should be reviewed and approved by an appropriate individual within management prior to posting to the general ledger. Adequate documentation should be attached to the entry so that an effective review can be performed. Approval should be documented via signature and date.

*Management Response:* Management agrees that proper review and approval of journal entries will improve controls over the Village's financial reporting, so as to enhance management's ability to make informed decisions. The Vicksburg Treasurer has been advised that all journal entries shall be reviewed and approved by the Village Manger prior to posting to the general ledger. A policy will be presented for approval to the Village Council at the January 23<sup>rd</sup>, 2017 Council meeting that ensures there will be proper policies and procedures over the preparation, review, and approval of journal entries and that employees will be held to the standards set forth by this policy.

Dual check signatures:

*Condition and criteria:* Certain checks did not have dual signatures, as required in accordance with the State of Michigan Accounting Procedures Manual developed under the authority of PA2 of 1968, as amended.

*Effect:* Certain checks were issued by the Golf Fund with only one signature and were not reviewed and approved by an appropriate individual within management.

*Cause:* Policies to ensure dual signatures on checks were not implemented. These policies were also not effectively monitored.

*Auditor's Recommendation:* All checks, with the exception of the tax collection checking account, must have dual signatures, with appropriate supporting documentation, to ensure disbursements are accurately written prior to approval and distribution.

*Management Response:* Management agrees that dual signatures will improve controls over the Village's disbursement process. The Village Division Directors were verbally advised in November 2016 that the practice of not securing dual signatures was to cease immediately. A policy will be presented to the Village Council on January 9<sup>th</sup>, 2017 to formally require dual signatures on all checks. The specific Division (Golf Fund) has implemented an EFT system in the month of November for payment to vendors to have additional systems that will avoid not having dual signatures on checks.

Conflict of interest policy:

*Condition and criteria:* The Village currently does not have a conflict of interest policy, as required in accordance with the State of Michigan Accounting Procedures Manual developed under the authority of PA2 of 1968, as amended.

*Effect:* A conflict of interest may arise when certain business relationships and/or personal transactions with vendors put an employee or official into conflict with their obligations to the Village and may not be disclosed or prohibited.

*Cause:* The Village has not adopted a conflict of interest policy.

*Auditor's Recommendation:* A conflict of interest policy should be adopted with the explicit expectations that the performance of the duties of employees and officials will be in the best interest of the Village, and all information provided will be truthful and complete.

*Management Response:* Management agrees that a conflict of interest policy should be adopted. The Village Council approved a Conflict of Interest Policy at their December 19<sup>th</sup>, 2016 Village Council meeting.

Expenditures for a valid public purpose:

*Condition and criteria:* The Village and DDA do not have proper controls in place to determine whether certain expenditures are for a valid public purpose.

*Effect:* An event was held, by invitation only, where food, beverages, and prizes were provided for attendees. The Village and DDA are stewards of public resources and expenditures may not be used for a private group or purpose.

*Cause:* Costs were incurred for items prior to evaluating whether they met the definition of public purpose, as defined in the State of Michigan Accounting Procedures Manual developed under the authority of PA2 of 1968, as amended.

*Auditor's Recommendation:* Expenditure guidance should assist individuals reach an appropriate conclusion as to whether a cost is for a valid public purpose, and, where necessary, complies with state rules and regulations.

*Management Response:* Management agrees that prior to incurring expenditures, the Village and DDA will research pending costs to ensure that they serve a public purpose. The Village Council approved a resolution (12-19-2016-1) at the Village Council meeting on December 19, 2016 that requires subunits (including the DDA) of the Governmental Body to submit all budget and financial requests to the village manager 21 days prior to presentation to the Village Council for approval. This resolution will provide time for the village manager for research and analysis to protect the Village's interests. A purchasing and procurement policy will be presented to the Village Council on January 9<sup>th</sup>, 2017 for their approval to ensure a formal requirement is in place to ensure there are proper controls in place to determine whether certain expenditures are for a valid public purpose.

Documentation and authorization of capital asset disposals:

*Condition and criteria:* The Village does not have adequate policies and procedures in place to authorize, approve, and monitor asset sales and dispositions.

*Effect:* Village assets may be sold or given away without council knowledge or approval.

*Cause:* The Village does not have a written policy over the sale or disposition of capital assets.

*Auditor's Recommendation:* The Village should have a written policy over the sale or disposition of capital assets to ensure that proper procedures are followed when an asset is sold or no longer needed.

*Management Response:* Management agrees that the Village should have a written policy for asset sales and dispositions. An Asset Management Policy will be presented to the Village Council for their approval at the January 9<sup>th</sup>, 2017 Village Council meeting to ensure that there is adequate policies and procedures in place to authorize, approve, and monitor asset sales and dispositions.

Golf memberships and green fees:

*Condition and criteria:* The Village does not have adequate policies and procedures in place to authorize, approve, and monitor Golf Fund revenues.

*Effect:* Certain individuals were given free golf memberships and employees and contractors were allowed to play free golf.

*Cause:* The Village does not have a written policy over memberships and employee/contractor golf.

*Auditor's Recommendation:* The Village should have a written policy addressing circumstances that would justify free golf.

*Management Response:* Management agrees that the Village should have a written policy for golf memberships and fees. Contact was made with individual golf membership holders that past practices would immediately cease at the golf course. A formal policy addressing golf memberships and fees will be presented to the Village Council on January 23, 2017 to ensure that there are adequate policies and procedures in place to authorize, approve, and monitor Golf Fund revenues.

Approval of expenditures:

*Condition and criteria:* The Village does not have adequate policies and procedures in place to approve expenditures in accordance with state guidelines

*Effect:* Certain expenditures were disbursed prior to approval by the Council.

*Cause:* The Village does not have a written policy over the purchases of goods and services.

*Auditor's Recommendation:* We recommend that a formal purchasing policy be put in place to control the disbursement process. All disbursements must be approved by the Council prior to disbursement. The Village may authorize limited payments prior to approval to avoid finance or late charges, as well as to pay payroll (including related payroll taxes and withholdings). These disbursements must be approved by the Council at the subsequent meeting.

*Management Response:* Management agrees that the Village should have a written policy for the purchase of goods and services. A purchasing and procurement policy will be presented to the Village Council on January 9<sup>th</sup>, 2017 for their approval to ensure adequate policies and procedures are in place to approve expenditures in accordance with state guidelines.

We did not audit the Village of Vicksburg's response to the internal control findings described above and, accordingly, we express no opinion on them.

**Restriction on Use**

This information is intended solely for the use of the Village Council of the Village of Vicksburg and the State of Michigan Department of Treasury and is not intended to be, and should not be, used by anyone other than these specified parties.

*Siegfried Crandall P.C.*