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MEMBERS
The American Institute of
Certified Public Accountants
The Michigan Association of
Certified Public Accountants

June 4, 2018

Board of Trustees
Chesterfield Township Library
Chesterfield Township, Michigan

Re: Supplemental System and Internal
Control Comments and Recommendations
in conjunction with audit for the year
ended December 31, 2017

Honorable Members:

In planning and performing our audit of the financial statements of Chesterfield Township Library for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library'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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we considered to be significant deficiencies.

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Library's internal control to be significant deficiencies:

Internal Control over Financial Reporting

Under U.S. generally accepted accounting principles (GAAP), management has primary responsibility for the preparation of the financial statements in accordance with GAAP. The Library provides certain reports and statements from its accounting program; however, management does not prepare the GAAP financial statements, including the related footnotes, or draft the accounting disclosures that are a required part of the financial reporting process.

Preparation of financial statements by Chesterfield Township Library's certified public accountant/auditor cannot be included as part of the Library's internal control. To alleviate the deficiency, management would need to identify an individual who would have primary responsibility for financial statement preparation, presentation of required disclosures, and identification of new accounting pronouncements applicable to the Library.

This is a commonly noted deficiency in many small organizations.

Segregation of Duties

One of the strongest controls in an internal control system is know as "segregation of duties." This means that there are different individuals performing the various duties within a specific accounting function. Having multiple individuals performing duties in the same accounting function acts as a check and balance.

As is common in many small organizations, there are often only a few people, and sometimes only one person performing the accounting and financial functions. And it is also common to have these

individuals concentrate their efforts in one area. While this is usually more cost efficient, it lends for a weak internal control system. This generally results in insufficient checks and balances in place and this situation could allow one person the ability to initiate financial functions independent of the approval (or knowledge) of others within the Library.

This is the situation with Chesterfield Township Library. Due to limited staff size, the Library has a lack of segregation of duties with respect to certain accounting functions because the duties are centralized with one or two individuals.

OTHER INFORMATION

Library Classification

The Library was formed under PA. 164 of 1877. As of December 31, 2017, it remains a fund of the Charter Township of Chesterfield even though the Library has an independent board. The Library and the Township have properly adopted a system for the receipt and expenditure of Library funds through the Township's Treasurers Office.

Budgeting

The Library has established a budgeting process which is used to control expenditures. We have reviewed the budgets for compliance with the Uniform Budgeting and Accounting Act P.A. 621 of 1978. The act requires that expenditures in a specific appropriations account beyond the amount of the original budget (general appropriations act), be approved by the Board with a transfer or supplemental appropriation. During the year ended December 31, 2017 the Library incurred expenditures in certain budgeted categories which were in excess of the amounts appropriated by the Board. The specific budget variances are detailed in note II of the annual financial report.

Fund Balance

During 2017, the Library's General Fund revenues exceeded expenditures by \$127,211. As a result, General Fund balance increased to \$2,050,386 at December 31, 2017.

A portion of the fund balance, \$4,852, is restricted for material purchases. The Board has assigned \$762,914 for construction of a building or future expansion, \$45,651 for 2018 budgeted expenditures and \$1,221,454 is unassigned. By maintaining an appropriate fund equity, the Library is able to meet unforeseen circumstances without affecting the level of programs for the year. The Library's unassigned fund equity is equal to approximately 110% of expenditures, or 57 weeks of operation.

Other Postemployment Benefits

The Library has created the Chesterfield Township Library Retiree Welfare Benefits Plan. The Plan is administered by ICMA Retirement Corporation and is a defined contribution plan. The Plan has been established to reimburse the eligible retirees of the employer for medical and dental expenses incurred by them, their spouses and dependents. All full-time employees, excluding the Executive Director are required to contribute 2% of gross wages to the Plan. Employer contributions are discretionary and will be determined each Plan year. For the year ended December 31, 2017, employer contributions totaled \$6,450 and employee contributions totaled \$4,891.

This communication is intended solely for the information and use of the Board of Trustees, management, and others within the administration of the Chesterfield Township Library. This restriction is not intended to limit distribution of this report which, upon acceptance by the Board of Trustees, is a matter of public record.

We appreciate the cooperation of the Library staff and trustees during our audit.

Respectfully submitted,

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