



SMITH & KLACZKIEWICZ, PC
CERTIFIED PUBLIC ACCOUNTANTS

THOMAS J. SMITH, CPA
(989)751-1167

ROBERT R. KLACZKIEWICZ, CPA
(989)751-3064

A VETERAN OWNED BUSINESS

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To Members of the Board of Trustees
of Gilmore Township

In planning and performing our audit of the financial statements of the governmental activities and each major fund of *Gilmore Township* as of and for the year ended March 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered *Gilmore Township's* internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *Gilmore Township's* internal control. Accordingly, we do not express an opinion on the effectiveness of *Gilmore Township'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 such deficiencies have been identified. In addition, because of 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 identified certain 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in *Gilmore Township's* internal control and presented in the attached Schedule of Control Deficiencies to this letter to be material weaknesses.

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 deficiencies in *Gilmore Township's* internal control and presented in the attached Schedule of Control Deficiencies to be significant deficiencies.

This communication is intended solely for the information and use of management, the Township Board of Trustees and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Smith + Klaczkiwicz PC

Saginaw, Michigan

Schedule of Control Deficiencies

Item 2018-1 – Preparation of Financial Statements in Accordance with GAAP {repeated from the prior year – 2016}

Criteria: The Township is required to prepare financial statements in accordance with accounting principles generally accepted in the United States (U.S. GAAP). This is a responsibility of the Township's management. The preparation of financial statements in accordance with U.S. GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the Township has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with U.S. GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

Cause: This condition was caused by the Township's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the Township lacks internal controls over the preparation of financial statements in accordance with U.S. GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Response: The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with U.S. GAAP and determined that it is in its best interests to outsource this task to its external auditors and to carefully review the draft financial statements and footnotes prior to approving them and accepting responsibility for their content and presentation.

Item 2018-2 Lack of Segregation of Duties {repeated from the prior year – 2016}

Criteria: The Township’s management is responsible for establishing and maintaining effective internal controls over financial reporting and for safeguarding the Township’s assets.

Condition: During the course of our audit, we noted instances where multiple key financial duties were being performed by the same individual and there were no mitigating controls in place to ensure effective internal controls.

Cause: As is the case with many organizations of similar size, the Township lacks a sufficient number of personnel in order to ensure a complete segregation of duties within its accounting function.

Effect: The Township’s current system of internal control does not appear to have sufficient safeguards in place to ensure that fraud or abuse is prevented or can be detected in a timely manner. Ideally, no single individual should be able to authorize a transaction, record the transaction in the accounting records and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and be able to conceal it.

Response: The Township understands the increased risk due to the inherent lack of segregation of duties and has concluded that the cost of implementing the segregation of duties does not warrant the benefit of the lower risk obtained. However, management will maintain a heightened awareness and continually review the mitigating controls over these areas.

Item 2018-3 - Recording, Processing and Summarizing Certain Accounting Data (Audit Adjustments) {repeated from the prior year – 2016}

Criteria: The Township is required to have internal controls in place over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records)

Condition: As is the case with many smaller and medium-sized entities, the Township has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the Township has placed reliance on its *external* auditors, who cannot by definition be considered a part of the Township's *internal* controls.

Cause: This condition was caused by the Township's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the Township to perform this task internally.

Effect: As a result of this condition, the Township lacks internal controls over the recording, processing, and summarizing of certain accounting data, and instead relies, in part, on its external auditors for assistance with this task.

Response: The Township has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, and summarizing of certain accounting data, and determined that it is in the best interests of the Township to rely on its external auditors to recommend the necessary adjustments.