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December 1, 2024

To the Honorary Mayor and
Members of the City Council
City of Lathrup Village, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Lathrup Village as of and for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America, we considered City of Lathrup Village's system of internal control over financial reporting (internal control) as a basis for designing 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 City of Lathrup Village's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Lathrup 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider 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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

Bank Reconciliations and Segregation of Duties - A strong part of the City's internal controls in place is the monthly bank reconciliation process. During our audit procedures, we identified that the bank reconciliations did not have documented review. Without the timely preparation and review of bank reconciliations, there is a risk that misappropriation of assets or financial reporting errors could occur and not be identified and corrected on a timely basis. We recommend that the City reconcile and document review of the bank reconciliation monthly within 30 to 45 days after month end.

It was also noted that new vendors can be added by the same individuals who collect cash and are involved in bank reconciliation process. Although the City has tried to put mitigating controls in place, such as an independent review of new vendors added to the system, this is not always done timely, and staff turnover has placed further constraints on the City's ability to effectively segregate incompatible duties and maintain effective mitigating controls. In addition, the same individual with full administrative and user rights within the general ledger also serves as the network administrator, which creates a risk for the misappropriation of assets or improper adjustments to the financial records to occur. The lack of effective segregation of duties, coupled with the lack of controls to prevent or detect such errors, significantly heightens the risk of potential misappropriation of assets and/or inaccurate financial reporting to occur and go undetected. We recommend that individuals who are involved in cash disbursement process not be able to add new vendors into the accounting system.

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 internal control to be significant deficiencies:

Check Register - Review of the check register revealed several internal control deficiencies concerning the handling of voided checks and sequence related to check register:

- Voided Checks Not Retained - Voided checks were not properly retained in the system or filed for future reference. As a result, there is a lack of documentation to substantiate the voided status of these checks, making it difficult to verify the legitimacy of these transactions.
- Voided Checks Cleared in the Bank - Some voided checks that were marked as voided were still processed and cleared by the bank. This could indicate a failure in the internal controls over the check voiding process.
- Voided Checks Not Properly Defaced - there were several checks that were included in the file as voided and documented in the check register as voided but was not properly defaced.

We recommend that the City implement policies and procedures to ensure that all checks are written in sequence, all voided checks are properly defaced, retained, and that management maintains adequate control of the unwritten checks.

During our audit, we noted areas where we believe there are opportunities for the City to further strengthen internal control or to increase operating efficiencies. Our observation on those areas are presented for your consideration below:

Credit Card Documentation - During our testing of the credit card controls we noted instances in which the City's internal controls were not followed in practice. Specifically, during our review of credit card purchases, we noted instances where supporting receipt documents were not retained or review of credit card statement and receipts were not documented review. Management has established control procedures over credit card purchases. These controls require all original receipts to be retained and submitted and review to be performed by someone other than the card holder. The City is at greater risk of potential fraud if formally adopted internal control procedures are not followed. We recommend that the City take steps to ensure that internal controls related to credit card use are followed.

Retiree Personnel Files - During our audit testing of personnel data used in the pension and OPEB calculations, we identified that the data for city retirees who participate in the city's pension and OPEB plans was not supported by personnel file data. While we understand the efficiencies in the transition to electronic personnel and other data, we recommend that the City implement procedures and controls to ensure the accurate updating of these electric records for which these valuations rely on.

Disaster Recovery Plan - It was noted that the City does not have a formalized and documented disaster recovery plan in place. In the event of an unforeseen disaster (such as a natural disaster, cyber-attack, or system failure), the organization lacks a clear, structured approach to ensure the continuity of critical business operations, protect sensitive data, and resume normal operations in a timely manner.

This communication is intended solely for the information and use of management, City Council, and others within City of Lathrup Village, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 1, 2024