



To the Village Council
Village of Paw Paw
Van Buren County, Michigan

Dear Council Members:

In planning and performing our audit of the financial statements of The Village of Paw Paw for the year ended February 29, 2004, we considered the entity's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Company's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

Bank Account Reconciliations

When bank account reconciliations were requested during the audit, they could not immediately be produced. Currently, the Finance Administrator is responsible for preparing all monthly reconciliations. However, these reconciliations are not being reviewed by a supervisor. We recommend that the Village Manager assume this responsibility on a monthly basis. Also, we recommend that the monthly reconciliations be printed, initialed and dated by preparer and reviewer, and then filed with the bank statement together with support for any reconciling items. These additional procedures will ensure timely and accurate completion of reconciliations, strengthen internal controls, and ensure information is readily available if needed.

ACH Transfers

During the audit we also noted that all ACH transfers are initiated and processed by one individual and the bank sends a confirmation notice via facsimile to the attention of the same individual. We recommend having the Village Manager review and approve ACH transfers and also suggest that the bank be notified to send all confirmations to the attention of the Village Manager. Involving a second individual in the process will help strengthen internal controls in this area.

Personnel Policies

The Village has written personnel policies for employee benefits such as sick and vacation time. During our testing of accrued employee sick and vacation time, we noted that the Village did not adhere to its own written policies related to the use of sick and vacation time off (i.e. time must be used in 4 hour increments). We suggest that the Village either adhere to its current written policies or update them in a manner that is consistent with current practices.

Employee Pay Rates

During our testing of the payroll system, we noted that the Village does not have documentation to support pay rates for its non-union employees. We suggest that the Village document any pay rate changes throughout the year and file such documentation in each employee's personnel file.

Wine & Harvest Fund

Fund balance in the Wine & Harvest Fund has declined steadily due to losses which have been incurred over the past several years. We suggest that expenditures within the fund be closely monitored to ensure that a deficit fund balance is not created.

Pension Costs

As a result of recent investment market declines the Village was required to make contributions to the pension fund for the first time in several years. The Village's future pension costs may increase, and this should be considered in the Village's long-term planning and budgeting process

Electronic Transfers

There was a new bill passed and signed on December 31, 2002 (PA 738) that requires all local units of government to approve a resolution authorizing payments of "automated clearing house (ACH) transactions." Beginning immediately, a local unit's governing body must adopt a policy on ACH arrangement that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows: describe the goods or services purchased, the cost, date of payment, and the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

Please feel free to contact us if you have any questions in developing the resolution.

Special Assessments

During the year just ended, a special assessment was completed. A portion of the funds remaining at the completion of the project may need to be refunded to the applicable parties. There are many complex issues relative to this process and care should be taken to ensure that the calculations and procedures are performed properly. We understand that the finance administrator is initiating this process of which we will be available to provide assistance, if deemed necessary.

GASB 34

The Village has chosen not to implement GASB Statement 34 as required by the Governmental Accounting Standards Board. We remind the Village Council of the following consequences of non-implementation:

- Although the State of Michigan will allow the exclusion of the Management's Discussion and Analysis and the government wide statements, the AICPA has told auditors that this will result in an adverse audit opinion.

The accompanying financial statements do not present government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business type activities and discretely presented component units. In addition, the components unit information presents only modified accrual information. Accounting policies generally accepted in the United States of America require the presentation of government-wide financial statements and full accrual information for the component unit statements. The amounts that would be reported in government-wide financial statements for the Village's governmental activities, business type activities and discretely presented component units, including the full accrual component unit data, are not reasonably determinable.

- The Village's ability to issue bonds and its current bond rating could be affected.
- The impact on future grant funding is not known at this time.

Although the Village has chosen not to implement this standard at this time, we do recommend that the Village familiarize itself with the standard and ensure that the required information will be available should the Village later decide to adopt the accounting standard.

We would like to thank the Village personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

July 15, 2004

Plante & Moran, PLLC