



To the Joint Board of Commissioners
Benton Harbor – St. Joseph Joint
Wastewater Treatment Plant

In connection with the audit of the financial statements of the Benton Harbor – St. Joseph Wastewater Plant (the Plant) for the year ended June 30, 2004, we offer the following comments and recommendations.

FINANCIAL OVERVIEW

During the year ended June 30, 2004, the Plant's overall financial condition remained stable with net income of approximately \$610,000. Total assets increased approximately \$630,000. This increase is reflected mostly in the balance of investments, which increased approximately \$460,000. Net assets increased to approximately \$17.2 million. Of this net asset amount, \$5.5 million is Board designated for future replacement of plant and equipment, \$9.5 million represents the investment in plant and equipment, leaving \$2.2 million of undesignated net assets. Actual sewage treatment charges were approximately \$145,000 more than budgeted revenue. Total operating revenue increased by approximately \$295,000 which is an increase of 9.6 percent. This is the result of an 8% increase in the bulk treatment rate effective January 1, 2004 and an increase in flows of 100 million gallons for fiscal 2004. Operating expenses (excluding depreciation expense) increased by approximately \$83,130, which is an increase of 4.5 percent and were approximately \$215,000 less than budget. Overall this generated a favorable variance of approximately \$115,000.

CONTROLS OVER MANUAL JOURNAL ENTRIES

During our testing of manual journal entries, it was noted that journal entries are not reviewed by someone independent of the initiation and data entry process. The entries are currently prepared by the Plant Manager and entered into the system by a member of the IT staff. The board may wish to have an independent person with more accounting background review entries, or the Board may wish to review the entries monthly with the usual monthly board packet of information. This process would add a higher level of internal controls without requiring much additional time, since there are usually only a handful of manual entries each month.

CREDIT CARDS

We would like to commend the Plant on adopting a credit card policy during fiscal 2004 to comply with State requirements.

ELECTRONIC TRANSFERS

There was a 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.

While the Plant's Board has authorized the Plant Manager to initiate electronic transfers for investments and payroll purposes, there is no board approved policy on file. We recommend that such a policy be adopted and specific written procedures be created for these types of transactions. We have provided management with a sample policy.

INVESTMENT POLICY TESTING

During the audit, we reviewed the investment policy requirements of the Plant and it appears that the Plant is following this policy. We did not note any exceptions during our testing of June 30, 2004 balances. We would like to compliment the Board on the excellent condition of the investment records and the positive condition of the investment portfolio. Based on our review, it appears that the portfolio is appropriately diversified, in order to comply with the policy. It also appears that all required procedures are in place and being followed by the Plant Manager as directed by the board. At June 30, 2004, the Plant held certificates of deposit that exceeded the two-year maturity window, but these certificates have been matched with forecasted capital requirements as permitted within the policy. Therefore, we did not note a deviation from the policy with this exception in maturity window.

ACCOUNTING RECORDS AND CONTROLS

We would like to compliment the Joint Board of Commissioners and Plant management for your sound and responsible financial leadership. This is evident in the overall positive condition of the Plant's financial records and related documentation for the fiscal year ended June 30, 2004. The Plant continues to maintain strong internal control procedures over cash collections, payroll and cash disbursement functions. In addition, the appropriate authorization channels and checks and balances necessary for a sound internal control system are in place at the Plant and operating effectively. Strong internal controls and procedures promote timely and accurate recording of financial transactions and provide pertinent information regarding the sources and uses of public funds. We encourage the Plant to continue to modify and refine existing control procedures as future financial activities change.

We would be happy to discuss these comments with you at any time. We appreciate the courtesy extended to us during the audit.

Plante & Moran, PLLC

August 25, 2004