



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council  
Village of Northport  
Leelanau County  
Northport, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Northport, Michigan as of and for the sixteen months ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Village of Northport's basic financial statements and have issued our report thereon dated January 15, 2025.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Village of Northport, Michigan's 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 the Village of Northport, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Northport, Michigan'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 described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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. We consider the deficiency described below as item 2024-1 that we consider to be a material weakness.

**2024-1 Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements**

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the government's management. The preparation of financial statements in accordance with 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 related footnotes (i.e., external financial reporting).



**Condition:** As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with 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 government's decision that it is more cost effective to outsource the preparation of its 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 government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

**Recommendation:** Due to the size and activity of the government, we recommend that the government continue to outsource financial statement preparation.

**View of Responsible Officials:** The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and noted prior to approving them and accepting responsibility for their content and presentation.

**Corrective Action Plan:** The government will continue to rely on its outside auditors to assist in preparing the GAAP basis financial statements and will evaluate annually for the need to change.

*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 described below as items 2024-2 and 2024-3 to be significant deficiencies.*

#### *2024-2 Lack of Segregation of Duties*

**Criteria:** Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the government and minimize the likelihood that fraud or errors could occur and not be detected. A key element of internal control is the segregation of incompatible duties.

**Condition:** The government has not achieved an adequate segregation of duties among employees who have both access to assets and accounting responsibilities.

**Cause:** This condition is primarily an inherently the result of staffing constraints typical of smaller governmental units.

**Effect:** As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.

**Recommendation:** There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.



**View of Responsible Officials:** Management recognizes that this limitation is a natural outgrowth of the small number of staff and applies its judgment in determining how best to allocate the government's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

**Corrective Action:** In deciding what internal control procedures should be implemented, the government has considered the costs of implementing them and weighed those costs against the benefits to be derived from their implementation and determined that it is in the best interest of the government not to add additional staff. The persons responsible for the corrective action is the Village Council. Unless circumstances change, the Village Council will not add additional staff and realizes this comment will be repeated in subsequent years.

### *2024-3 Auditor Proposed Material Journal Entries*

**Criteria:** The government is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

**Condition:** During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the government's debt service fund general ledger to the appropriate balances.

**Cause:** Several account balances of the debt service fund were materially misstated at year end.

**Effect:** This resulted in significant efforts to reconcile and correct balances at the end of the year.

**Recommendation:** We recommend that the government implement procedures to ensure that all general ledger accounts but, in this particular case, specifically the accounts of the debt service are adjusted at year end.

**View of Responsible Officials:** Management of the government believes this was a problem involving issues from previous years and that going forward will be corrected now that account balances have been updated and corrected as of fiscal year end. The government does not foresee this as an issue in the future and will continue to monitor and prepare records to ensure accurate financial reporting.

**Corrective Action:** The government will continue to monitor and prepare records to ensure accurate financial reporting. The government will also consult outside sources as needed throughout the year which they feel will eliminate auditor proposed material journal entries.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village of Northport, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



## **The Village of Northport, Michigan's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Village of Northport, Michigan's response to the findings identified in our audit is described above. Village of Northport, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**UHY LLP**

Cadillac, Michigan

January 15, 2025

