

**COMMUNICATION OF MATERIAL WEAKNESSES
AND INTERNAL CONTROL RELATED MATTERS**

To the Board of Trustees
Besser Museum for Northeast Michigan
Alpena, MI 49707

In planning and performing our audit of the financial statements of Besser Museum for Northeast Michigan (the Museum) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Besser Museum of Northeast 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control. Accordingly, we do not express an opinion on the effectiveness of the Museum'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, other deficiencies that we consider to be significant deficiencies, and other items for management to consider that may provide opportunities to enhance internal controls.

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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Museum's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in Besser Museum of Northeast Michigan's internal control to be material weaknesses:

2018-001: Accounting for Capital Campaign Funds

Management relied on its external auditors to identify and record all activity in the accounting records of the Museum for the 50th Anniversary Capital Campaign. This included identifying and confirming amounts received, as well as pledges receivable, preparing the required adjustments to general ledger accounts and compiling this information into a manner that will provide the information required for financial reporting purposes.

Management has indicated that due to the complexities involved in the accounting and financial reporting for the Capital Campaign it was a decision to request assistance in this area during the 2018 fiscal year. Since capital campaigns are utilized infrequently, management determined that the cost of gaining the knowledge and expertise in this area outweighed the potential benefits to the Museum.

2018-002: Accounting for Temporarily Restricted Net Assets

We encourage management to continue to develop a reliable accounting system for tracking temporarily restricted net assets (as well as any permanently restricted net assets that may arise in the future). Currently, during the process of completing the audit, our firm is reconciling temporarily restricted net assets well after these contributions were received and adjusting the accounting records in effort to provide accurate financial reporting. This should not be part of the audit process. The Museum has made an effort to track temporarily restricted net assets within its general ledger accounting system. There is a misinterpretation regarding what is considered a temporarily restricted net asset leading to inaccurate results within the accounting system. Management and the Board may want to consider outsourcing this work if it is able to meet your cost/benefit expectations.

2018-003: Adjusting Journal Entries

The financial close and reporting process is an integral part of developing accurate accounting information. Management has relied on external auditors to assist in this part of the accounting process. There are adjusting journal entries that are material to the Museum's financial statements and several entries are reclassifications required to correct accounting records. In addition, transactions were identified that had not been recorded within the Museum's accounting information. There should be procedures implemented for the financial close and reporting processes that reconcile general ledger account balances. Management is encouraged to review the system of internal controls related to the financial close and reporting process.

2018-004: Segregation of Duties

We remind you that an inherent weakness in your system of internal control exists because the limited size of your staff does not permit an adequate segregation of duties. Without an adequate segregation of duties, there is an increased risk that errors or fraud could occur and not be detected. We recognize the Board's involvement and the use of external accountants helps to reduce the Museum's risk of having limited staff available to the Museum.

Significant Deficiencies

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 Besser Museum of Northeast Michigan's internal control to be significant deficiencies:

2018-005: Preparation of the Financial Statements

Preparing the financial statements in accordance with generally accepted accounting principles is the responsibility of management. As is the case with many non-profit entities, the Museum has historically relied on its independent auditors to assist in the preparation of the financial statements and footnotes as part of its financial reporting process. Accordingly, the Museum's ability to prepare the financial statements in accordance with generally accepted accounting principles is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the Museum's internal controls. The decision, like other similar entities, is based on the fact that it is more cost effective and efficient to outsource the preparation of the financial statements to the auditors than incur the time and expense of obtaining the necessary training and expertise required for the Museum to prepare the statements internally that meet generally accepting accounting principles. We would like to stress that this service is allowable under the professional code of ethics and is likely the most cost effective method of preparing the financial statements.

2018-006: Consistency in General Ledger Postings

The ability to compare current financial information with historical financial information is a very meaningful analytical tool when managing and directing the Museum's operations. Therefore, consistent general ledger postings, both within the current fiscal year, as well as between fiscal years, is the essence of providing management with this tool with which to base decisions made on behalf of the Museum.

During the audit, we noted instances of general ledger postings that were not consistent. It can be time consuming during the audit process to attempt to identify which accounts general ledger entries may have been posted to if similar items are not posted consistently to accounts within the same year and between fiscal years. We encourage management to review the system of internal controls related to consistent general ledger reporting.

Other Matters

During our audit, we also became aware of the following internal control related matters that we consider opportunities for enhancing internal control.

Capital Asset Policy

There is currently no policy in place for a minimum capitalization amount regarding fixed assets. This leaves this area up to individual discretion and interpretation. Through implementing a capitalization policy, it will better serve the Museum and Management through determining what should be added to the fixed asset schedule. Many nonprofit organizations utilize a policy of \$500, however the Museum may consider a higher policy due to conducting many projects in excess of this amount.

40th Anniversary Capital Campaign Funds

We encourage the Board to provide Management with guidance as to how the remaining 40th Anniversary Capital Campaign funds will be used to support the Museum with considerations of the donor's intent.

Collections Expense

We encourage Management to classify expenses that are intended to be utilized for the improvement of the Museum's collections separate from supplies.

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

Stacy Lamp : Krumpholtz

January 26, 2018