

TOWNSHIP OF SCIO, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2024

2024-001 – Material Restatements

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a 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 the related footnotes (i.e., external financial reporting).

Condition. Material adjustments to beginning fund balance of the fire department special revenue fund and the parks and recreation special revenue fund were necessary to properly recognize revenue in the proper period.

Cause. These restatements were required because amounts received in the prior year were not properly recognized as revenue in the prior year. There was no effect on ending position as of March 31, 2024.

Effect. As a result of this condition, the following adjustments to beginning fund balance and net position were required:

- Beginning fund balance in the fire department special revenue fund and net position of governmental activities were increased by \$2,005,621 due to a change in accounting policy related to the recognition of special assessment revenue.
- Beginning fund balance in the parks and recreation special revenue fund and net position of governmental activities were increased by \$749,682 to properly recognize revenue in the prior year.

Recommendation. Management has already taken appropriate corrective action by reviewing and approving the prior period audit adjustments.

View of Responsible Officials. Agree with this recommendation and approved these one time prior period audit adjustments.

Responsible Official. Clerk

Estimated Completion Date. The fire department special revenue fund prior period adjustment was planned and the parks and recreation special revenue fund prior period adjustment was anticipated. By March 2025, the Township will have stronger internal controls in place to ensure that major revenue is properly booked.

TOWNSHIP OF SCIO, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2024

2024-002 – Segregation of Duties

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for establishing effective internal controls to safeguard the Township's assets, and to prevent or detect misstatements to the financial statements. A key element of internal control is the segregation of incompatible duties within the accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction.

Condition. The Township's internal controls over various accounting functions have not been operating as designed, and segregation of duties has not been achieved. Specific areas of concern include the following:

- There is no process requiring independent review and approval of manual journal entries.
- The Township does not have a formal, documented cash handling process and there is a lack of evidence of the preparer and independent reviewer on the cash receipting documentation.
- Bank reconciliations are being prepared and reviewed, but not always being reviewed in a timely manner.
- There is no formal review and approval process over census data submitted to the actuaries who are determining the pension and other postemployment benefits liabilities and related amounts.

Cause. This condition was caused by a lack of oversight and review within the Township.

Effect. As a result of this condition, the Township is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation. We recommend that the Township implement policies and procedures to address the above areas of concern attributed to the internal controls over the Township's accounting functions. We further recommend that segregation of duties be maintained wherever possible, and that independent reviews and approvals take place timely, and be evidenced in writing.

View of Responsible Officials. Agree with this recommendation.

Responsible Official. Clerk and Treasurer

Estimated Completion Date. March 2025

TOWNSHIP OF SCIO, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2024

2024-003 – Utility Billing

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining complete and accurate receivable balances for utility billing customers.

Condition. Numerous billing adjustments were made during the year with no controls in place to support, review and approve the adjustments. In addition, utilities receivable accounts include balances that will not be collected due to certain balances belonging to inactive accounts. The billing registers also contain incorrect usage figures.

Cause. This condition was caused by a lack of oversight and review within the Township and a lack of understanding of how the billing registers are being generated.

Effect. As a result of this condition, the Township is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation. We recommend that the Township implement policies and procedures to address the above areas of concern attributed to the internal controls over the Township's utility billing. In addition, we recommend that the Township periodically review the receivable aging reports and write off any balances that are not expected to be received due to inactivity. We further recommend that the Township gain an understanding of how the billing registers are being generated to ensure these are accurate.

View of Responsible Officials. Agree with this recommendation.

Responsible Official. Clerk

Estimated Completion Date. March 2025

TOWNSHIP OF SCIO, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2024

2024-004 – Unsupported Liability Balances

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. The Township is required to keep accurate subsidiary records of the amounts held in each liability account. These accounts should be analyzed and reconciled on a regular basis (e.g. monthly or quarterly).

Condition. The Township is unable to support the year end balance for certain immaterial liability accounts.

Cause. This condition was caused by the absence of a standard procedure for reconciling accounts to their subsidiary detail on a timely basis resulting in balances rolling forward from year to year.

Effect. As a result of this condition, the Township is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation. We recommend that the Township reconcile all balance sheet accounts and follow-up on any variances in a timely manner.

View of Responsible Officials. Agree with this recommendation.

Responsible Official. Clerk and Treasurer

Estimated Completion Date. March 2025

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TOWNSHIP OF SCIO, MICHIGAN

Attachment A - Comments and Recommendations

For the March 31, 2024 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding these matters. Our consideration of the Township's internal control over financial reporting is described in our report, dated September 18, 2024, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated September 18, 2024, on the financial statements of the ***Township of Scio, Michigan***.

Lack of Procedures to Review User Access on a Periodic Basis

Per inquiry with management, there is not a defined process to review user accounts and entitlements for in-scope financial applications. The in-scope users and their roles/access rights have not been obtained and reviewed to assess the appropriateness of access retained by users in the system.

Lack of Manual Call-Back Procedures for Wire Transfer and Vendor Master File Change Requests

Per inquiry with management, there are no manual call back procedures in place to independently verify requests for wire transfers (including amount and bank details) or changes to vendor master data (i.e., bank details, shipping locations, etc.) when requests for these items are received via email. The risk is that emails can easily be intercepted and spoofed to send fake/fraudulent requests to change bank details or submit fraudulent wire requests, ultimately leading to the inappropriate disbursement of funds. Management should implement a process to manually call the wire requestor/approver and/or vendor requesting the change to verify the accuracy and validity of the disbursement/changes requested. The verification process should utilize a known contact number that is independently obtained from documentation not included in the original request received.

Lack of Procedures to Document and Perform a Test of Backups on a Periodic Basis

Per inquiry with management, there is not a defined process to test the viability of backups on at least an annual basis. If backups are not tested a risk exists that they will not be fit for use if an emergency arises.

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