

TOWNSHIP OF SCIO, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2025

2025-001 – Segregation of Duties (Repeat)

Finding Type. Significant Deficiency 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 a certain accounting function have not been operating as designed, and segregation of duties has not been achieved. Specifically, numerous utility billing adjustments were made during the year with no controls in place to 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.

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. The sample selected by auditors was from early in the fiscal year, prior to the Township instituting procedures to address this risk of misstatement or misappropriation. Beginning in August 2024, our Finance Assistant was hired and began creating better documentation about the support for any utility billing adjustments. After identifying the utility billing adjustment necessary, or having such an adjustment identified by the Utilities Director, the Finance Assistant prints the utility billing history report and writes by hand the reason the adjustment was made. These reports are kept in a three-ring binder.

In January 2025, the Clerk instituted additional internal controls by ensuring that after the Finance Assistant prepared these utility billing adjustments and underlying reason, that the Clerk and Treasurer personally sign off on these adjustments. This step allows for timely independent review and approvals, evidenced in writing, of the amount and reason for the adjustment.

TOWNSHIP OF SCIO, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2025

The inactive account balances identified in utility billing are from years ago, and our team has reviewed this situation internally to understand the problem. Prior to December 2024, the Township did not consistently comply with the requirement that the Township roll outstanding utility liabilities to the tax bill. And so, when the Finance Assistant and Treasurer began complying with this requirement in December 2024, by default, only the active accounts were rolled to tax rolls. To resolve this issue, beginning with the December 2025 tax roll, the Finance Assistant and Treasurer plan to roll all active and inactive account balances to property taxes to avoid these accounts from having a long outstanding balance.

While the Township does not yet have a formal policy outlining these procedures above, the Clerk, Treasurer, and Finance Assistant plan to develop such a policy for Board of Trustees consideration by not later than March 2026.

Responsible Official. Clerk and Treasurer

Estimated Completion Date. March 2026

TOWNSHIP OF SCIO, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2025

2025-002 – Significant Audit Adjustment

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

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. A significant adjustment to governmental activities capital assets was necessary to properly record the disposal of land.

Cause. Internal controls did not detect all of the necessary capital asset disposals.

Effect. As a result of this condition, the Township's accounting records were initially misstated by approximately \$114,000 for governmental activities.

Recommendation. Management has already taken appropriate corrective action by reviewing and approving the adjustment.

View of Responsible Officials. Agree with this recommendation and approved this adjustment. For a few years, the Township's practice has been that the day after each Township Board meeting, for any item with a financial impact, the Clerk provides any approved motion to the person responsible for the item to move the item forward in the Township's internal workflow. In this fiscal year, the Township sold a property, making such approval at the Board table and sale final subsequently via purchase agreement delegated to a staff person for signature. The disposal never came to the Finance Manager for entry into the accounting records, and the Finance Director did not identify the missing disposal at year end close, resulting in the year end misstatement.

In May 2025, the Township adopted its first Capital Assets and Controlled Assets Disposal Policy, which makes clear that the Finance Director should be involved in such disposals and is the record keeper of all support documentation. Beginning September 2025, prior to or immediately after Board meetings, the Clerk will flag for the Finance Manager all Board items with significant or irregular accounting impacts. And, at the end of each quarter, The Finance Director or Finance Manager will review the meeting minutes to detect any previously missed items having an effect on the accounting records.

Responsible Official. Clerk

Estimated Completion Date. September 2025

TOWNSHIP OF SCIO, MICHIGAN

Schedule of Findings and Responses

For the Year Ended March 31, 2025

2025-003 – Unsupported Liability Balances (Repeat)

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. The Township will continue to use the integrated ERP software, BS&A, as the record of accounts for the Township. Prior to November 2024, the Township had not integrated the BS&A modules for Delinquent Personal Property and Cash Receipting. These modules have since been integrated, and the associated liabilities have been corrected.

The Clerk and Treasurer will implement monthly reconciliation of account balances of liability accounts. As the Township continues to develop its financial management capacity, we are able to implement more regular and detailed accounting. A more robust monthly reconciliation of liability accounts is one area in need of improvement. We plan to develop a written policy for month end reconciliation of Township accounts, and propose it the Board of Trustees by not later than March 2026.

Responsible Official. Clerk and Treasurer

Estimated Completion Date. March 2026



TOWNSHIP OF SCIO, MICHIGAN

Attachment A - Comments and Recommendations

For the March 31, 2025 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 August 21, 2025, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated August 21, 2025, on the financial statements of the *Township of Scio, Michigan*.

Lack of Procedures to Review User Access on a Periodic Basis (repeat)

Based on discussions with management, it was noted that there is no defined process in place to periodically review user accounts and access entitlements for the financial applications. Additionally, a complete list of users, along with their assigned roles and access rights, has not been obtained or reviewed to assess whether access levels are appropriate.

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

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 (repeat)

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.

