

December 29, 2023

To the Members of the Township Board of Trustees
Township of Hayes
Charlevoix, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Hayes (the “Township”) for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 22, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Township are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2023. We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Township’s financial statements was:

- Management’s estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some future economic benefit.

We evaluated the key factors and assumptions used above in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered one difficulty in dealing with management in performing and completing our audit: delays based on the condition of the books and records.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements were material to the financial statements. Proposed adjusting journal entries were provided to and recorded by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 29, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and the budgetary comparison schedules, which are required supplementary information (RSI) that supplements the

basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) to determine the 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 Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township'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. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we have identified deficiencies in internal control that we consider to be 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material Weaknesses:

We consider the following deficiencies to be material weaknesses:

Material Weakness - 2023-001 - Material Audit Adjustments and Financial Statement Preparation (Repeat Finding)

Criteria: All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the 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 accounting records), and 2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e., external financial reporting).

Condition: We identified and proposed material audit adjustments that management reviewed and approved. We also assisted management with preparing the basic financial statements and the related footnotes.

As is the case with many small and medium-sized governmental units, the Township has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the Township's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the Township's internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. This is a repeat finding.

Cause: This condition was caused by the Township's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the Township to perform this task internally because outsourcing the task is considered more cost effective.

Effect: The Township's accounting records were initially misstated by amounts material to the financial statements. In addition, the Township lacks complete internal controls over the preparation of its financial statements in accordance with GAAP, and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

Recommendation: We recommend that management continue to monitor the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft of the Township's annual financial statements versus contracting with its auditor for these services.

Management Response: Management has made an ongoing evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so. Management will continue to review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Material Weakness - 2023-002 - Segregation of Incompatible Duties (Repeat Finding)

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Township. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition/Finding: The Township has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include journal entries, cash reconciliations, and accounts payable transactions.

Cause: This condition is a result of the limited size of the Township's accounting staff.

Effect: As a result of this condition, the Township 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: While 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, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Management's Response: As a result of limited staffing, we cannot accomplish the desired segregation of duties. Management staff will provide increased oversight and review of operations to help correct errors and to deter inappropriate actions and potential fraud.

Material Weakness - 2023-003 – Lack of Monitoring (Repeat Finding)

Criteria: The Standards for Internal Control for the Federal Government (which is a good general standard for all types of municipalities) defines internal control as “an integral part of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.”

It further defines the monitoring of internal control as assessing the quality of performance over time and ensuring that the findings of audits and other reviews are promptly resolved. Internal control should generally be designed to ensure that ongoing monitoring occurs during normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other related tasks.

Condition/Finding: The Township Board of Trustees has not been able to properly monitor the financial condition, or compliance with regulations and laws, due to the condition of the Township's general ledger.

Cause: This condition is a result of the following:

- Cash isn't being reconciled properly within the accounting software and was misstated by material amounts prior to the audit.
- State revenue and tax deposits were incorrectly posted resulting in overstated revenue totals.
- Journal entries were incorrectly posted providing misleading and inaccurate revenue and expenditure totals.
- Credit card purchases and purchases with gift cards were not properly reviewed and reconciled.
- Payroll tax liabilities were not paid in accordance with the balances due leading to tax notices and tax refunds from taxing agencies throughout the year.

Effect: The failure to monitor the Township's activities may lead to misappropriation of funds and the inability of the Board to determine its overall financial condition.

Recommendation: We recommend that the Board review these findings and not only implement policies and procedures related to the Township's internal control structure, but also monitor and oversee the activities of the Township.

Management's Response: The Township will review and revise its internal policies and procedures to ensure that key activities are being reconciled timely, and, that the Board of Trustees is provided with monthly reports to review and verify the financial condition of the Township and that the Township is compliant with pertinent regulations.

Material Weakness - 2023-004 - Disbursement Procedures (Repeat Finding)

Criteria: Chapter 5 of the Michigan Department of Treasury's Uniform Accounting Procedures Manual states: "Each local unit must establish and maintain an adequate system of internal control for cash disbursements." The manual provides requirements for documentation and procedures surrounding cash disbursements. Several recommendations in this finding can be found in that manual.

Condition/Finding: We noted the following weaknesses during the testing of the internal controls over the cash disbursement process:

- 23% of invoices tested were missing administrative approval
- 15% of disbursements tested were missing appropriate supporting documentation
- 24% of disbursement tested were improperly classified in the general ledger (requiring proposed adjusting journal entries)

- All ACH and credit card payments were lacking receipts or suitable supporting documentation for the activity, including ACH payments (unable to determine source of the costs)

Cause: The Township's internal controls weren't suitably designed in accordance with the Michigan Department of Treasury's requirements for recordkeeping, authorization, and classification of disbursements, including ACH and credit card payments.

Effect: The failure to monitor the Township's activities may lead to misappropriation of funds and the inability of the Board to determine its overall financial condition.

Recommendation: We recommend that the Township develop and implement policies and procedures that will ensure all documentation is properly maintained and reviewed to strengthen the internal control policies of the Township. Examples of good policy and procedures are as follows:

- Require signed approval of all invoices by the appropriate administrative personnel before payment is issued
- Require external supporting documentation (invoices) before processing of payments
- Use a template as a reference for loading check stock into the printer. Check stock should be kept in numerical order and correspond to check numbers within the accounting system
- Limit access of check stock by securing within a safe when not in use
- Unpaid vendor invoices should be kept in a separate file, vendor invoice numbers should be checked against previous payment within the accounting software to avoid duplicate payments
- Mark checks as voided and place in a separate file for voided checks. Once a check is voided this should be recorded as a voided check with the Township's accounting software
- The Township should retain a copy of each check stub and file it with the corresponding vendor invoices paid on that check. This documentation should be filed with each vendor's file
- The Township should organize vendor files in a consistent and logical manner (i.e., alphabetically by vendor name, numerically by check number)
- The Township should consistently use vouchers to record accounts, approvals and describe payment amounts. This should be done based on each disbursement. The voucher should be attached to the corresponding check stub and invoices

Management's Response: The Township is in the process of implementing new policies and procedures. Management will sign off on every voucher for payment. There will be two signatures on the checks with both signees reviewing the documentation and the check, including credit card receipt and supporting documentation for ACH transactions. The person responsible for accounts payables at the time will review every invoice for prior amounts.

Material Weakness - 2023-005 - Timely Bank Reconciliation (Repeat Finding)

Criteria: The APM states “all bank accounts must be reconciled to the local unit accounting records monthly and should then be reviewed by the appropriate supervisory personnel. Bank statements and reconciliations must be retained for audit purposes.”

Condition/Finding: Bank accounts are not being reconciled and independently review in a timely fashion.

Cause: This condition is due to the Township’s negligence in fulfilling its responsibilities.

Effect: Failure to reconcile the bank statements created an incomplete general ledger and led to an over or understatement of cash balances and a corresponding over or understatement of revenues and/or expenditures. The Township Board of Trustees was not aware of the true financial status of any of the Township’s funds and; therefore, could not make any sound financial decisions. The financial condition of the Township may not have been readily determined.

1. The Township Board of Trustees may not have been able to make sound business decisions because it had a lack of financial data on which to make an evaluation.
2. The Township Board may have obligated more funds than were available, which is a violation of the Uniform Budgeting and Accounting Act.

Recommendation: We recommend that the Township Board of Trustees prepare, approve, and institute a reconciliation process that ensures bank reconciliations are performed monthly and reviewed by a Board member. We further recommend that the bank statements and all related documents be maintained for seven years in accordance with the Records Retentions Act of Michigan.

Management's Response: Management staff will improve processes in order to ensure that all bank accounts of the Township are reconciled and independently reviewed in a timely manner.

Statutory Noncompliance:

Our examination revealed the following instances of noncompliance with State statutes:

Statutory Noncompliance - 2023-006 – Failure to File Reports - F-65 and Audit Reports (Repeat Finding)

Criteria: MCL 141.427 Every county, city, village, and township must file an Annual Local Unit Fiscal Report (Form F-65) with the State Treasurer in accordance with PA (PA) 71 of 1919, PA 2 of 1968 and PA 275 of 1980. The Form F-65 must be received by the Michigan Department of Treasury within six months after the end of the local unit's fiscal year and must be filed annually regardless of the filing requirements for an audit. Failure to timely file Form F-65 may cause the unit's State Revenue Sharing money to be withheld (MCL 141.921).

Condition/Finding: For fiscal year 2022, the Township failed to file the annual audit report and Annual Local Unit Fiscal Report (F-65 Report) timely with the Michigan Department of Treasury.

Cause: This condition is a result of the Township's lack of accounting information and supporting documentation as well as the Township's negligence in fulfilling its responsibilities.

Effect: The effect of this finding is that the Township is out of compliance with Treasury.

Directive: We direct that the Township file the required reports. The Michigan Department of Treasury is requiring annual audits until these deficiencies are rectified starting after fiscal year 2022. A copy of the audit report shall be filed with the State Treasurer within six months after the end of the fiscal year of a local unit.

Management's Response: The Township Board of Trustees has engaged a CPA firm and is in the process of submitting all required audit reports and F-65 reports by January 2, 2024.

Statutory Noncompliance - 2023-007 - Expenditures in Excess of Appropriations (Repeat Finding)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968.

Condition/Finding: Our examination of procedures used by the Township to adopt and maintain operating budgets for budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act. The Township's 2023 General Appropriations Act (budget) provided for expenditures of the General fund and Special Revenue funds to be controlled at the activity level. As detailed below, actual 2023 expenditures exceeded the

Township Board of Trustees' approved budget allocations for several general fund activities.

Fund/Function/Department	Final Budget	Actual Amount	Negative Variance
General Fund			
<i>General Government</i>			
Township Board	\$ 99,389	\$ 107,844	\$ (8,455)
Elections	7,600	11,261	(3,661)
Treasurer	32,775	40,306	(7,531)
<i>Public Safety</i>			
Fire Protection	61,975	92,782	(30,807)
<i>Health and Welfare</i>			
Ambulance	-	4,704	(4,704)
<i>Community and Economic Development</i>			
Pantry	-	3,821	(3,821)
<i>Debt Service</i>	-	122,978	(122,978)

Cause: The Township Board of Trustees did not have meaningful financial statements to review during the year and, accordingly, didn't amend the budget sufficiently to avoid the overages.

Effect: The effect of this finding is that the Township is out of compliance with State statute.

Directive: We direct the Township to develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Management's Response: The Township will do quarterly budget amendments, using reliable financial statements, and more as needed to ensure that the expenditures are not in excess of the final budget.

Comments and Recommendations:

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This section summarizes our comments and recommendations regarding those matters. These items are not included with the material weaknesses or statutory noncompliance matters listed above, nor do they affect our report dated December 29, 2023 on the financial statements of the Township.

The following items represent our recommendations and considerations for further improvement:

Accounting Software

The Township currently uses two sets of QuickBooks (one for the Township and one for the Township Road Fund) as the records for the Township along with written accounting ledgers. These written ledgers limit the ability of the Board to monitor and assess the financial condition of the Township during the year. In addition, QuickBooks does not have the capacity to separate the multiple funds of the Township, as is required with government fund accounting. As a result, it is difficult to keep various funds separate and cross postings or “one-sided entries” can occur.

We experienced difficulties in reconciling fund balances and beginning asset and liability balances. We noted that there are multiple years of activity that has not cleared within the Township’s QuickBooks. Additionally, the written accounting ledgers for the tax collection fund (and bank account) and food pantry bank account do not reconcile with the Township’s QuickBooks. This resulted in numerous additional hours required in order to reconcile the accounts.

Multiple accounting software solutions are available that would vastly improve internal controls and monitoring at the Township. **We recommend that the Township research and select the accounting software that best meets its financial reporting needs, and that the software be implemented for 2024.** Advantages of accounting software include:

- One data file can be shared by all system users (rather than maintaining separate sets of records).
- Cash can be pooled and tracked separately (reducing the Township’s bank accounts from nine to two or three) reducing administrative effort to reconcile cash. This too would eliminate the need to transfer funds and record journal entries moving cash from bank account to bank account (it is worth noting that these Township prepared journal entries were a primary source of errors requiring material audit adjustments).
- Monthly budget to actual reports, summarized by fund and department, can be provided to Board of Trustees allowing and improved understanding of how the Township is performing compared to the original budget adopted by Board of Trustees.
- Compliance with the Uniform Budget Act, F-65, and CVTRS reporting requirements, and the Department of Treasury Chart of Accounts is more likely to be achieved using real-time information provided by an accounting system.
- Detailed reconciliation reports can be system generated proving that cash is reconciled, and that revenues and expenditures are properly stated.
- Independent review can be achieved by having multiple members of the Board of Trustees review and sign off on cash reconciliation reports, check registers, and cash receipt reports.

- Recording transactions into the accounting software reduces the risk of transaction being coded to an incorrect line item.
- Significant amount of time can be saved with system generated reports, printing of payables checks, and automated transaction entry.

Payroll Tax Liability Reconciliation

We noted during our audit that the payroll tax liability accounts in the general ledger were unreconciled after each set of monthly payments. This led to multiple tax notices showing balances due or, in some cases, refunds due from the taxing agencies. **We recommend the Township adopt a process that requires payroll tax liabilities to be fully reconciled in the general ledger after each payment.**

Credit Card Activity Reconciliation

The Township uses one credit card with a credit line of \$3,500. During our audit, we noted that credit card purchases were not properly reviewed or reconciled within QuickBooks and lacked receipts or suitable supporting documentation for the activity. **We recommend the Township to adopt a credit card use policy that requires credit cards to be fully reconciled in the general ledger prior to payment along with requiring receipts or suitable supporting documentation for each purchase.**

Township's Response to Findings

The Township's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Restriction on Use

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

Very truly yours,



Gabridge & Company, PLC
Traverse City, MI