

April 25, 2023

To the Township Board of Trustees  
and Management  
Charter Township of Highland

We have audited the financial statements of the Charter Township of Highland (the "Township") as of and for the year ended December 31, 2022 and have issued our report thereon dated April 25, 2023. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section III - Legislative and Informational Items

Sections I and II include information that we are required to communicate to those individuals charged with governance of the Township. Section I communicates deficiencies we observed in the Township's internal control that we believe are significant deficiencies. Section II communicates significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process.

Section III contains updated legislative and information items that we believe will be of interest to you.

We would like to take this opportunity to thank the Township's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the 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.

We welcome any questions you may have regarding the following communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Pamela Hill, CPA  
Partner



Amanda Cronk, CPA  
Senior Manager

## Section I - Internal Control Related Matters Identified in an Audit

In planning and performing our audit of the financial statements of the Township as of and for the year ended December 31, 2022, 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) 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 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 significant deficiencies or material weaknesses, 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 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.

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 the Township's internal control to be significant deficiencies:

**Segregation of Duties** - During the prior audit, it was identified that one individual has administrative rights to add and remove users in the general ledger system. This individual also has access within the general ledger system to add new vendors for payment along with adding new employees to the payroll system. While there are mitigating review processes in place over new vendors and employees, the Township's system could have allowed for manipulation of the financial data. While we believe the current controls would detect any such action, the current controls would not prevent that from occurring. We did note, through our testing, that no new users were added to the accounting system during fiscal year 2022 and that each invoice and payroll output report are being reviewed by members of management. We recommend the Township review the current controls and discuss if there is a person at the Township who could be the administrator of the system whose other access abilities would not create a control issue. Also, we recommend that the Township put in place a process to review a user access listing periodically through the year to ensure that fictitious users are not added to the system. This will be an additional preventive control to deter fraud and misappropriation of assets.

**Accrual Adjustments** - During the audit, it was identified that accrual adjustments were being posted directly to cash instead of the appropriate receivable or payable account. While this did not create a revenue or expenditure misstatement, this did result in cash and the appropriate receivable/payable to be misstated, which was significant. While the Township has detective controls in place through the bank reconciliation process, we recommend procedures be put in place to ensure entries to cash are not made within the general ledger if cash is not receipted or disbursed in order to comply with accounting rules.

## **Section II - Required Communications with Those Charged with Governance**

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated January 4, 2023, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 12, 2023.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. 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 2022, except for the adoption of GASB Statement No. 87, *Leases*. GASB Statement No 87 established criteria for identifying leasing activities of state and local governments and has been retrospectively applied.

We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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.

There were no significant balances, amounts, or disclosures in the financial statements based on sensitive management estimates.

The disclosures in the financial statements are neutral, consistent, and clear.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in performing and completing our audit.

## **Section II - Required Communications with Those Charged with Governance (Continued)**

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as 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.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

The misstatements detected as a result of audit procedures were corrected by management related to cash, accounts receivable, and accounts payable. The Township has concluded to pass on recording grant revenue/expenditures of \$18,886 in General Fund and governmental activities, along with accrued payroll in the following opinion units: the General Fund (\$40,811), the Fire Operating Fund (\$44,383), governmental activities (\$85,194), and the discretely presented component unit (\$1,558). The Township has concluded to pass on recording adjustments to planning bonds payable in the General Fund and governmental activities (\$101,464) and accounts payable/expenditure in the Fire Capital Fund and governmental activities (\$10,500). Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. However, uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future period financial statements to be materially misstated.

### ***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Township, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our 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 of our retention.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated April 25, 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.

## Section III - Legislative and Informational Items

### **COVID-19 Resource Center and ARPA**

Throughout the COVID-19 pandemic, Plante & Moran, PLLC's COVID-19 task force of leaders across the firm has monitored, addressed, and provided insight related to the virus and the unique challenges our local governments have faced while continuing to provide essential services to their communities through our ARPA and COVID-19 resource center for governments. Following is a link to various ARPA-related articles that we believe will be of interest to you: <https://www.plantemoran.com/explore-our-thinking/search?skip=10&keyword=arpa&type=all&professional=all&practice=all&industry=85a5df97-9c41-4000-86d3-db25835731a6&areaOfFocus=all&daterange=all&sortBy=DateDesc>.

In March 2021, the president signed the American Rescue Plan Act (ARPA) into law, which included federal stimulus funding for state and local governments of all sizes. The largest of all funding streams, the Coronavirus State and Local Fiscal Recovery Funds (SLFRF), represents a \$350 billion top-line allocation for state and local governments. Funding was provided in two tranches beginning in May 2021, with the second tranche not being released until 12 months after the first payment. Effective April 1, 2022, the U.S. Department of the Treasury published the final rule for determining the types of programs and services that are eligible uses of the SLFRF funding. Overall information about the program, including a frequently asked questions document and an overview of the final rule, is available on the U.S. Department of the Treasury's website at <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments>.

The ARPA award terms provide that payments from the Fiscal Recovery Funds as a general matter will be subject to the provision of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), including the cost principles and restrictions on general provisions for selected items of cost. The Township will need to understand these reforms and may be required to evaluate, document, and monitor internal procedures around compliance, including maintaining certain required policies.

Plante & Moran, PLLC's COVID-19 resource center is being continuously updated for the latest guidance and strategy related to SLFRF and will help keep the Township running smoothly through our nation's recovery.

Want to receive relevant content directly to your email? Subscribe at <https://www.plantemoran.com/subscribe> where you can customize your subscription preferences based on your specific interests and industry selection.

### **Michigan's COVID-19 Updates and Related Grant Programs**

The Michigan Department of Treasury has developed a webpage with numbered letters, memorandums, webinars, and resources regarding COVID-19 updates and related grant programs: [https://www.michigan.gov/treasury/0,4679,7-121-1751\\_98769---,00.html](https://www.michigan.gov/treasury/0,4679,7-121-1751_98769---,00.html).

## **Section III - Legislative and Informational Items (Continued)**

### **Coronavirus State and Local Fiscal Recovery Funds Alternative Compliance Examination**

In April 2022, the Office of Management and Budget amended its compliance rules to allow for a simplified single audit process for municipalities that would not be required to undergo a single audit if it were not for the expenditures of SLFRF. This alternative applies to fiscal year audits beginning after June 30, 2020. SLFRF recipients that expend \$750,000 or more during their fiscal years and meet the following two criteria have the option for their auditor to follow the alternative compliance examination engagement guidance:

1. The recipient's total SLFRF award received directly from the U.S. Department of the Treasury or received as a nonentitlement unit is \$10 million or less.
2. Other federal award funds expended by the recipient (excluding SLFRF award funds) are less than \$750,000 during its fiscal year.

We are happy to assist in evaluating the application of the changes and answer any questions about how the changes impact the Township.

### **Monitoring Lease Activity**

GASB Statement No. 87, *Leases*, was effective in fiscal year 2022. Although significant analyses were performed to determine the applicability of the new standard and record any necessary adjustments, we want to stress the importance of implementing ongoing monitoring procedures over lease activity. When the Township enters into new leases, existing leases are modified, or other facts and circumstances change, consideration must be given to the impact those changes will have on lease accounting. In order to do so, the Township must ensure there is a process in place to identify and appropriately account for new leases or changes to existing leases on an ongoing basis or at least at the end of each year.

### **Cybersecurity and Information Technology Controls**

Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. Because of these attacks, municipalities stand to lose their reputation, the ability to operate efficiently, and proprietary information or assets. Communities potentially can also be subject to financial and legal liabilities. Managing this issue is especially challenging because even a municipality with a highly mature cybersecurity risk management program still has a residual risk that a material cybersecurity breach could occur and not be detected in a timely manner. We understand that the technology department continues to monitor and evaluate this risk, which are critical best practices. Additionally, periodic assessments of the system in order to verify that the control environment is working as intended are key parts of measuring associated business risk. We encourage administration and those charged with governance to work with the technology team on this very important topic. If we can be of assistance in the process, we would be happy to do so.

### **Revenue Sharing**

The fiscal year 2023 governor's budget recommendation includes \$1.5 billion for revenue sharing. Further details of the breakdown of this amount are available at <https://www.michigan.gov/treasury/0,,7-121-17512197---,00.html>.

In order to receive the City, Village, and Township Revenue Sharing (CVTRS) payments in FY 2023, qualified local units will once again need to comply with the same best practices as they did last year as follows:

- A citizen's guide to local finances with disclosure of unfunded liabilities
- Performance dashboard
- Debt service report
- Two-year budget projection

## Section III - Legislative and Informational Items (Continued)

### **Inflation Rate Multiplier for 2023**

In January 2023, the Michigan State Tax Commission issued Bulletin 17 of 2022 regarding the inflation rate multiplier for use in the 2023 capped value formula and the Headlee millage reduction fraction formula. The inflation rate for property taxes as defined in Michigan Compiled Law (MCL) 211.34d has increased beyond the historical 5 percent cap to 7.9 percent for 2023. As a result, the inflation rate multiplier of 1.079 must be used in the calculation of the 2023 Headlee millage reduction fraction required by Michigan Compiled Law (MCL) 211.34d. As the inflation rate multiplier of 1.079 is higher than 1.05, the inflation rate multiplier to be used in the 2023 capped value formula is 1.05.

### **Rules Governing Management of Federal Programs**

The Office of Management and Budget (OMB) issued significant reforms to the compliance requirements that must be followed by nonfederal entities receiving federal funding related to awards on or after December 26, 2014. While these revisions were not too recent, the revisions were the most significant change to occur to federal grants management in recent history. While many communities have historically been below the \$750,000 single audit threshold, recent legislation provides for an increase in federal spending, and, therefore, more communities may be subject to an audit requirement; the Township will need to understand these reforms and may be required to make changes to internal procedures, processes, and controls.

- **Cost Principles** - There were certain changes made to allowable costs and significant changes in the area of time and effort reporting and indirect costs.
- **Administrative Requirements** - Nonfederal entities receiving federal funding must adhere to revised rules related to administering federal awards. Most notably, the requirements may impact the Township's procurement systems, including maintaining written conflict of interest policies and disclosures.

The Township will need to ensure that consideration of the implementation of these regulations has occurred; if it has not, the Township needs to work quickly to put the requirements into practice. Plante & Moran, PLLC has many experts in this area and welcomes any questions or needs you may have.

### **Federal Procurement Threshold Changes**

The Office of Management and Budget has issued significant reforms to the compliance requirements that must be followed by nonfederal entities. The Office of Management and Budget recently issued Memorandum M-18-18, which provides guidance on changes to micropurchases and simplified acquisition threshold requirements. The key changes are as follows:

- Threshold for micropurchases is increased to \$10,000.
- Threshold for simplified acquisitions (small purchase procedures limit) increased to \$250,000.

Key adoption considerations for micropurchase and simplified acquisition thresholds include the following:

- During the original adoption of the Uniform Guidance procurement standards, were specific amounts included within the Township's procurement policy, or were references to the Uniform Guidance sections or amounts as adjusted referenced? If specific amounts were referenced, the procurement policy will need to be updated to take advantage of the changes.
- If the Township's procurement policy was written to allow for changes in amounts, the procedures will need to be updated to conform.
- If this change is inconsistent with other procurement policies within the organization, the Township must decide how the policy will be enacted. Remember local ordinances in place may limit full utilization of changes.

### **Section III - Legislative and Informational Items (Continued)**

- If the Township has chosen not to fully adopt the change and maintain a lower threshold, then the Township is not required to use these thresholds but cannot exceed them.

#### **Upcoming Accounting Standards Requiring Preparation**

We actively monitor new Governmental Accounting Standards Board (GASB) standards and due process documents and provide periodic updates to help you understand how the latest financial reporting developments will impact the Township. In addition to the summaries below and to stay up to date, Plante & Moran, PLLC issues a biannual GASB accounting standard update. The most recent spring 2022 update and a link to previous fall and spring updates are available [here](#).

#### ***GASB Statement No. 96 - Subscription-Based Information Technology Arrangements (SBITAs)***

This new accounting pronouncement will be effective for the Township's year ending December 31, 2023. This statement defines SBITAs and provides accounting and financial reporting for SBITAs by governments, including requiring a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITAs.

#### ***Significant GASB Proposals Worth Watching***

The GASB is working on three interrelated projects that result in a comprehensive look at financial reporting for state and local governments. Of these three efforts, two are likely to result in significant changes to governmental financial statements in the future.

The Financial Reporting Model exposure draft was issued in June 2020, and the final statement is expected to be released in late 2023. While this standard proposes changes to many aspects of the Township's financial statements, this proposed standard will most significantly impact the Township's governmental fund financial statements.

The Revenue and Expense Recognition project aims to develop a comprehensive accounting and financial reporting model for transactions that result in revenue and expenses. The GASB has issued a preliminary views document that proposes a new categorization framework that replaces the exchange/nonexchange transaction notion with a four-step categorization process for classifying a transaction. In addition to this new framework, the proposal also addresses recognition and measurement of revenue and expense transactions. The exposure draft for this project is expected sometime in 2025.

Plante & Moran, PLLC has spent significant time digesting these new proposed standards and recently testified to the GASB about our feedback. We strongly encourage the Township to monitor developments with these standards, as the potential impacts are quite broad.