

AGENDA # J.1
Scio Township Board of Trustees
Authorization of Temporary Township Finance Officer staff contracts

FOR MEETING DATE OF: March 22, 2022
PREPARED ON: February 5, 2022; updated
February 18, 2022; updated March 4 2022
PREPARED BY: David Rowley
SUBMITTED BY: Administrator

ITEM TYPE: Possible Action

BACKGROUND:

This proposal is not about the Scio Township of the past. This proposal is about the Scio Township of the future. In other words, what does Scio aspire to be in the years ahead. Nothing in these remarks should be construed as criticism or fault with past practice. On the contrary, the history of Scio has shown a strong resilience to providing service to its citizens. Over the years, there have been gaps in the service of township managers/administrators and differences in the level of engagement of past Board of Trustees in terms of budget and finance policy. This has led to oversights. There have been modifications and vacancies in leadership in some departments but not others. And then, there were all the issues of COVID which impacted all aspects of township operations. Scio has endured. But Scio can be better.

Clearly, the general law township of Scio of 5, 10, 15, or 20 years ago is not the general law township of Scio of today. The outside world of Scio has changed. However, the internal workings of Scio have not in many respects. Scio is no longer the same limited general law township that it once was. It has grown to a point where its \$1.49 billion taxable value dwarfs many other local units of government with sustainably larger populations. The size of the general fund revenue is equal to some small cities across the state while this same size of revenue is double and even triple many other general law townships. Scio can no longer afford to do business with the mind set of “that is the way we have always done it”. We cannot continue to use the same past practice and procedures and then expect different results.

In my review of the township, a complete reorganization of the finance team is in order; however, that proposal will come in the near future. While I will attempt to address the “big

picture” in these current remarks, today’s proposal is to fill a vital short-term need in our financial staff area. As I took office on December 1, 2021, I have no personal interest in what proposals may or may not have been offered before that time. Respectfully, they are not relevant to this discussion. It is time to move Scio to a new comprehensive handling of all financial matters with complete and accurate regularly presented records and planning for assets, revenue, expenditures, and investments which are required to adequately provide the various services for the township residents.

In my experience as a local government official and research as a Government and Public Policy Educator with MSU Extension, the modern local government finance team is expected to have the following characteristics for a long term sustainable financial base. This list is for example purposes and is certainly not all inclusive.

At present, Scio provides a bare minimum to none at all of the following:

- Updated chart of accounts
- Tracking of financial activities (Daily, Monthly, and Annual)
- Revenue Forecasting
- Budget calendar with established deadlines
- Development of fiscal sustainability indicators to include revenue and expense tracking; condition of assets; detailed debt and liabilities; detailed Pension and OPEB data
- Detailed internal controls
- Established short- and long-term vision / strategic plan
- Balance the long-term goals with the short-term needs

Let us expand on this last point of “Balance the long-term goals with the short-term needs”.

As part of my “State of the Township” review, I completed individual interviews with each current staff

member to gather their views on a variety of topics including staffing needs. I also reviewed the

inner workings of the various departments looking for workflow patterns, cross training opportunities,

current support backup/redundancies etc.

For the finance team, this review focused on the typical activities / tasks expected in finance. These areas included in no particular order:

- Accounts Receivable
- Purchasing
- Accounts Payable
- Payroll and Benefits
- Audit and Year-End Reporting
- Investments and Cash Management
- Debt Management
- Detailed records for asset management
- Budget Process
- Capital Improvement Plan
- Grants Management
- Special Assessments
- Payment in Lieu of Taxes (PILOT)
- Utility Billing

I have concluded that there is an immediate short term need as well as a long term / permanent finance support reorganization. Currently, Scio Township does not have the adequate internal staff capacity to accomplish all our financial responsibilities in a timely manner. All staff resources are deployed with no reserves to spare. Scio Township has *no* redundancy in its financial support. Many tasks have one (1) person availability. Other tasks have zero (0) staff support. While actual numbers of finance staff do vary across the state, a complete long term goal finance team for a general fund revenue size jurisdiction comparable to Scio is typically a senior finance team leader, an intermediate finance team leader and two (2) to three (3) finance team members depending upon how the organization handles its utility billing as part of finance or utilities. Scio has one full time finance staff position with limited back up support.

Additionally, the current Scio Township model of how it handles budget and finance materials has led to delays in preparing the annual audit to the point of requesting an extension of the filing deadline as well as lack of compliance with state requirements.

On October 14, 2021, Plante & Moran, PLLC issued their audit report on the financial statements of Scio Township. While many processes and procedures were accomplished and in compliance, the auditors did make the following observations regarding deficiencies and need for correction. These omissions are critical. Correction plans have been developed by the Clerk and Treasurer's offices; however, without staffing changes such corrective measures will be very difficult if not impossible to fully implement.

"There was an error in the OPEB census data valuation. ... an employee ... was not included in the ... actuarial valuation as of March 31, 2021. Although the impact on the total OPEB liability on March 31, 2021, was not material for this one individual, without adequate controls in place ... the actuarial valuation could be misstated, resulting in a potential material impact on the recorded net OPEB liability. We recommend that the Township implement procedures controls to strengthen the OPEB census data gathering and review process." ...

"We have noted the following instances of noncompliance with laws and regulations during the course of audit:

... As of March 31, 2021, the Township has not set up a trust to pay retiree insurance premiums for the year, as well as the normal costs for the new employees hired after June 30, 2018.

... During the year ended March 31, 2021, the Township did not provide the governing body with an investment report on a quarterly basis.

...Dure the year ended March 31, 2021, there were instances when the Township's distribution of tax revenue to other taxing units was in excess of 15 days. ...

Difficulties Encountered in Performing the Audit

... The Township was not able to provide all requested support by the planned end of remote fieldwork date of June 18, 2021. There were adjustments provided to the general ledger through mid-August, resulting in difficulties in performing and completing the audit. ...

Updated Uniform Chart of Accounts

In April 2017, the State released an updated Uniform Chart of accounts. Originally, local units of government were expected to comply with the changes beginning with June 30, 2018, year ends. However, the State has extended the deadline for compliance. On April 20, 2020, the State issued a memo that sets an implementation date for fiscal years ending on October 31, 2022, or thereafter. ...

Rules Governing management of Federal Programs

“The Office of Management and Budget (OMB) issued significant reforms to the compliance requirement that must be followed by nonfederal entities receiving federal funding, ... recent legislation provides for an increase in federal spending and therefore 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. ...

On March 13, 2020, the Treasury issued Numbered Letter 2018-3 (Revised) ... this revised numbered letter provides additional clarity and guidance for compliance with Public Act 202 related to the calculation and reporting of the actuarial determined contribution (ADC) for other postemployment benefit (OPEB) systems. ... The ADC, calculated in accordance with the act, must be reported in the audited financial statements. ... Failure to calculate the ADC in compliance with the number letter ... will be considered statutory noncompliance. ...”

Clearly, Scio needs a long-term reorganization of its finance team. Please keep this long-term goal in mind as we move to a short-term solution for ending the current fiscal year. This short-term proposal will also develop a solid foundation for our long-term finance structure to be built upon.

In looking at possible external options, and to develop an appropriate plan of action, I contacted other

local government/county officials, professional financial organizations, former colleagues of mine from

Michigan State University Extension who are experts in government finance, as well as long

term

colleagues of mine who are managers/administrators in various Michigan jurisdictions. I have also had

conversations with several members of the Board of Trustees as well as numerous department heads and staff members.

This review has led to the development of the following recommended proposal:

Township Finance Officer support is needed for the next three (3) to six (6) months, until a permanent

solution is in place. My intention is only to contract out for short term critical services needed to complete our year end close out procedures, prepare and accomplish the annual audit and build a solid base structure for future finance excellence.

The Temporary Finance Officer contractors would report to the Township Administrator and receive

direction from the Administrator. The Township Administrator will authorize tasks from the following Scope of Work in consultation with various Township officers as appropriate.

1. Oversee the preparation and maintenance of the journals and ledgers necessary to reflect the

assets, liabilities, fund equities, revenues, and expenditures for each fund of the township. Assess gaps in financial policies and recommend changes as needed to bring all processes in compliance with applicable state laws and Michigan Department of Treasury requirements.

2. Oversee implementation of the conversion of Chart of Accounts from that currently used to

State Treasury's Uniform Chart of Accounts for Local Units of Government.

3. Oversee year end closing procedure and support Finance Manager in serving as liaison to

auditor for both regular annual audit and single audit as required for FYE22.

4. Other projects as directed by the Township Administrator, in consultation with officer(s) as

appropriate.

Several highly reputable accounting firms were contacted regarding this proposal. Two (2), Plante Moran and Rehmann submitted proposals. Both proposals are included with these remarks. The original expectation was to contract with a single firm; however, both Plante Moran and Rehmann offer unique specialties that this recommendation is offered that the Township enter into concurrent contracts with both. The rationale is simple. Each firm is extremely well qualified on an individual basis; however, to leverage the best services from specific professionals from each firm on the timeline we require, the Board of Trustees is asked to approve both proposals for our short-term needs.

Plante Moran currently provides audit services for the township. As such, Plante Moran staff is acutely

aware of the Chart of Accounts and internal workings of Scio Township. As time is of the essence to

complete our conversion to the state of Michigan's required Chart of Account, Plante Moran is best suited to accomplish this task in the least amount of time and with the least cost.

They have estimated the implementation of the Chart of Accounts at approximately \$5,000.

As our auditor firm, there are limitations to the work that could be performed due to separation and professional oversight requirements. Thus, this limitation provides for the need of the separate agreement with Rehmann Robson.

Rehmann is also a highly qualified professional firm which can complete all the other required tasks that would be limited by Plante Moran due to the auditor status. In utilizing this dual model, Scio Township can accomplish all our current fiscal year end tasks, implement the Michigan chart of accounts, update all aspects of financial accounting and reporting as well as be well prepared to provide for the annual audit without the need to ask the state of Michigan for extensions to complete audit work. Additionally, these short-term contracts will provide quality work and a solid foundation to begin our conversations about

long term finance team reform for Scio Township.

The residents of Scio Township provide millions of dollars to the township through their payment of taxes and fees. They have a right to expect a quality accounting of how **their** money is handled by the township. The future of Scio begins today. A comprehensive financial plan and adequate finance staff is critical to that future.

Representatives from both firms are expected to be available for questions from the Board.

FISCAL IMPACT: Funds already budgeted in 101-191 (Accounting) for remainder of FYE2

FISCAL IMPACT: Funds already budgeted in 101-191 (Accounting) for remainder of FYE22. Funds have been requested for proposed budget for FYE23 in 101-191 (Accounting). Total costs not to exceed \$137,000.

RECOMMENDATION:

The Township Administrator, the Clerk, Finance Manager, Utilities Director, and Fire Chief recommend approval.

MODEL MOTION:

To enter into an agreement with Rehmann Robson for services as outlined in February 17, 2022 Engagement Letter for a term to begin on March 23, 2022 and end not later than September 30, 2022 based on actual hours worked with a not to exceed contract amount of \$104,000; and to enter into an agreement with Plante Moran for services outlined in February 15, 2022 Engagement Letter for a term to begin on March 23, 2022 and end not later than September 30, 2022 based on actual hours worked and with a not to exceed contract amount of \$33,000. The Township Supervisor and Clerk are authorized to sign agreements approved by the Township Attorney as to form and substance, and to be paid from budgeted funds in 101-191 (Accounting).

ATTACHMENTS:

[Rehmann Engagement Letter.pdf](#)

[Rehmann Supplemental Information.pdf](#)

[Plante Moran Engagement Letter.pdf](#)

[PM_bios_for_Scio.pdf](#)

QUESTION: Shall this Motion be APPROVED?