

Isabella County, Michigan

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

September 30, 2011

Isabella County, Michigan

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Isabella County, Michigan
Mt. Pleasant, Michigan

Compliance

We have audited the compliance of Isabella County, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on Isabella County, Michigan's major federal program for the year ended September 30, 2011. Isabella County, Michigan's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of Isabella County, Michigan's management. Our responsibility is to express an opinion on Isabella County, Michigan's compliance based on our audit.

Isabella County's basic financial statements include the operations of the Central Michigan District Health Department, Isabella County Transportation Commission, and the Isabella County Road Commission, discretely presented component units, which received \$3,076,853, \$886,981, and \$1,189,414 in federal awards, respectively, which are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2011. Our single audit did not include the operations of the Central Michigan District Health Department or Isabella County Transportation Commission discretely presented component units because the component units engaged us to perform a separate audit in accordance with OMB Circular A-133. The Isabella County Road Commission did not have a single audit required because the Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended September 30, 2011, the Federal aid received and expended by the Road Commission was \$1,189,414 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Isabella County, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Isabella County, Michigan's compliance with those requirements.

In our opinion, Isabella County, Michigan complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011.

Internal Control Over Compliance

The management of Isabella County, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Isabella County, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Isabella County, Michigan's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Isabella County, Michigan as of and for the year ended September 30, 2011, and have issued our report thereon dated April 12, 2012. We did not audit the financial statements of the Isabella County Road Commission, which represents 66% and 35%, respectively of the total assets and revenues of the component units and the Medical Care Facility which represents 63% and 82%, respectively of the total assets and revenues of the business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Road Commission and Medical Care Facility, are based solely on the reports of the other auditors.

Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Isabella County's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of management and the Board of Commissioners of Isabella County, Michigan, others within the entity, the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 12, 2012

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Current Year	
			Revenues	Expenditures
U.S. DEPARTMENT OF JUSTICE				
Bureau of Justice Assistance				
ARRA - FY 2010 Recovery Act Justice Assistance Grant Program	16.804	2009-SU-B9-4017	\$ 7,065	\$ 7,065
U.S. DEPARTMENT OF TRANSPORTATION				
Direct program				
ARRA - Highway Planning and Construction Grant	20.205	AGF2009029	159,304	159,304
Passed through Michigan State Police				
Office of Highway Safety Planning				
Safe Communities Grant	20.600	PT-11-18	20,703	20,703
	20.601	AL-11-14	50,017	50,017
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			230,024	230,024
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Michigan Department of Human Services				
Child Support Enforcement (Title IV-D)	93.563			
Cooperative Reimbursement ^{(a)(c)}				
Friend of the Court		CS/FOC-10-37001	302,569	302,569
Prosecuting Attorney		CS/PA-10-37002	25,791	25,791
Title IV-D Incentive Payments ^{(b)(c)}				
2010 Regular		N/A	141,546	141,546
			469,906	469,906
Passed through Region VII Area Agency on Aging				
Special Programs for the Aging				
Title III, Part D	93.043	N/A		
Medication Management			620	620

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Current Year	
			Revenues	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED				
Passed through Region VII Area Agency on Aging - continued				
Special Programs for the Aging - continued				
Title III, Part B ^(d)	93.044	N/A		
Case Coordination and Support			\$ 31,093	\$ 31,093
Personal Care			5,439	5,439
Homemaker			8,036	8,036
Respite			4,483	4,483
POS CM Homemaking			721	721
			<u>49,772</u>	<u>49,772</u>
Title III, Part C-1 ^(d)	93.045	N/A		
Congregate Meals			74,984	74,984
Home Delivered Meals			71,247	71,247
			<u>146,231</u>	<u>146,231</u>
Alzheimer's Disease Demonstration Grants to States	93.051	N/A	210	210
Title III, Part E	93.052	N/A		
Caregiver Training			14,987	14,987
Supplemental Funds			3,650	3,650
Kinship Care Funds			1,019	1,019
			<u>19,656</u>	<u>19,656</u>

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year Ended September 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Current Year	
			Revenues	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONCLUDED				
Passed through Region VII Area Agency on Aging - concluded				
Special Programs for the Aging - concluded				
Nutrition Services Incentive Program (NSIP) ^(d)	93.053	N/A		
Congregate Meals			\$ 28,104	\$ 28,104
Home Delivered Meals			45,404	45,404
			<u>73,508</u>	<u>73,508</u>
ARRA - Aging Congregate Nutrition Services for States ^(d)	93.707	N/A	2,459	2,459
Medical Assistance Program	93.778	N/A	19,779	19,779
Centers for Medicare and Medicaid Services (CMS)				
Research, Demonstrations and Evaluations	93.779	N/A	5,700	5,700
			<u>317,935</u>	<u>317,935</u>
Total passed through Region VII Area Agency on Aging				
			<u>787,841</u>	<u>787,841</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Michigan Department of Natural Resources				
2010 Marine Safety Grant	97.012	N/A	4,166	4,166
Passed through West Michigan Shoreline Regional Development Commission				
2007 Homeland Security Grant	97.067	N/A	614	614
2008 Homeland Security Grant			951	951
			<u>5,731</u>	<u>5,731</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY				
TOTAL FEDERAL FINANCIAL ASSISTANCE				
			<u>\$ 1,030,661</u>	<u>\$ 1,030,661</u>

Isabella County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2011

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Isabella County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note C below.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursements of these contracts are passed through the State Department of Human Services (DHS). The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of Title IV-D eligible expenditures for the applicable grants. The entire amount paid by DHS for the reimbursed expenditures is considered Federal.
- (b) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues and are 100% Federal.
- (c) Denotes program tested as a "major program".
- (d) Program considered a cluster by the U.S. Department of Health and Human Services.

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the federal revenues reported in the September 30, 2011 basic financial statements to the expenditures of the County administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	Federal/ State Revenue	Less State/Local Revenue	Federal Award Expenditures
PRIMARY GOVERNMENT			
GENERAL FUND			
Homeland Security	\$ 43,980	\$ (42,415)	\$ 1,565
Prosecutor - CRP	25,791	-	25,791
Youth grant	50,017	-	50,017
Traffic enforcement	20,703	-	20,703
Sheriff grant	7,065	-	7,065
Marine safety grant	4,166	-	4,166
Other Programs	<u>1,760,765</u>	<u>(1,760,765)</u>	<u>-0-</u>
TOTAL GENERAL FUND	1,912,487	(1,803,180)	109,307

Isabella County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year Ended September 30, 2011

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

	<u>Federal/ State Revenue</u>	<u>Less State/Local Revenue</u>	<u>Federal Award Expenditures</u>
PRIMARY GOVERNMENT - CONCLUDED			
SPECIAL REVENUE FUNDS			
Friend of the Court	\$ 444,115	\$ -	\$ 444,115
Commission on Aging Activities	317,935	-	317,935
TOTAL SPECIAL REVENUE FUNDS	<u>762,050</u>	<u>-0-</u>	<u>762,050</u>
COMPONENT UNITS - DRAINAGE DISTRICTS			
County Drain Construction and Maintenance			
Intergovernmental - federal	<u>159,304</u>	<u>-</u>	<u>159,304</u>
TOTAL	<u>\$ 2,833,841</u>	<u>\$ (1,803,180)</u>	<u>\$ 1,030,661</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Isabella County, Michigan
Mt. Pleasant, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Isabella County, Michigan as of and for the year ended September 30, 2011, which collectively comprise Isabella County's basic financial statements and have issued our report thereon dated April 12, 2012. We did not audit the financial statements of the Isabella County Road Commission, which represents 66% and 35%, respectively of the total assets and revenues of the component units and the Medical Care Facility which represents 63% and 82%, respectively of the total assets and revenues of the business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Road Commission and Medical Care Facility, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Isabella County's internal control over financial reporting as a basis for designing our auditing procedures 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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. In addition, because of 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 described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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. We consider the deficiencies described in the accompanying schedule of findings as 2009-1 and 2011-3 to be material weaknesses.

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 identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings as 2011-2 that we consider to be a significant deficiency in internal control over reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Isabella County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2010-2 and 2011-1.

Isabella County's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit Isabella County's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of management and the Board of Commissioners of Isabella County, Michigan, others within the entity, the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 12, 2012

Isabella County, Michigan
 SCHEDULE OF FINDINGS
 Year Ended September 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.563	Child Support Enforcement (Title IV-D)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

2009-1 REPEAT AUDIT COMMENTS

Condition: During our review of internal controls at the Sheriff's Department, the Trial Court, Drain Office, Recycling Center, Commission on Aging, and Register of Deeds, we noted several opportunities to strengthen internal control and segregate duties in the cash receipting and disbursement procedures. These issues were noted and reported in our prior year audit comments. Specifically, we noted:

Isabella County, Michigan
SCHEDULE OF FINDINGS - CONTINUED
Year Ended September 30, 2011

Section II - Financial Statement Findings - Continued

2009-1 REPEAT AUDIT COMMENTS - CONTINUED

Sheriff's Department:

- a. The cashiers do not maintain separate cash drawers.
- b. There is no log maintained of receipts received in the mail.
- c. Source documentation is not retained to support receipts.
- d. Any of the office staff, clerks, and corrections officers has the capability to receipt money and void receipts. Additionally, all of the clerks and corrections officers are authorized check signers for the Inmate Trust Account.
- e. The daily cash receipts reports are not compared to the posting to inmate accounts to ensure that the accounts are properly credited.
- f. The disbursements made from the Inmate Trust account are not reviewed prior to checks being prepared.
- g. The Department does not reconcile amounts due to individual inmates per the computer system to amounts held in the related bank account.

Trial Court:

- a. The cashiers do not maintain separate cash drawers, with access restricted to the assigned employee.
- b. There is no log maintained of receipts received in the mail.
- c. Source documentation is not retained to support receipts.
- d. The employee who reconciles the bank account is not independent of the cash receipting and disbursements process.

Drain Office:

- a. The cashiers do not maintain separate cash drawers.
- b. All department employees are authorized to receipt money.

Recycling Center:

- a. The recycling center does not utilize a receipt book or other form of pre-numbered cash receipts for all receipts.
- b. Administrative assistant opens the mail, performs cash receipting, and has access to the electronic records.

Commission on Aging:

- a. The Commission on Aging does not compare the mail log to bank deposits to ensure completeness. Multiple employees handle the receipts before they are recorded.
- b. The account clerk prepares deposit tickets, deposits the cash, and prepares a reconciliation spreadsheet for management review.

Register of Deeds:

- a. The cashiers do not maintain separate cash drawers.
- b. There is no log maintained of receipts received in the mail.

Criteria: The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e. receipts, disbursements, etc.). The controls applicable to the Trial Court are required by the State of Michigan.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended September 30, 2011

Section II - Financial Statement Findings - Continued

2009-1 REPEAT AUDIT COMMENTS - CONCLUDED

Cause: Management believes that the recommended controls would be too costly or cumbersome to implement.

Effect: The Sheriff's Department, Trial Court, Drain Office, Recycling Center, Commission on Aging and Register of Deeds are susceptible to fraudulent transactions as the internal controls and segregation of duties in these areas is inadequate. The Trial Court is also not in compliance with applicable sections of the Michigan Court Administration Reference Guide.

Recommendation: We recommend that the departments evaluate all aspects of their accounting functions and consider taking action to correct the above deficiencies.

Corrective Action Response: Management has reviewed the recommendations of the auditors and will work with the departments in evaluating where cash controls can be strengthened beginning with increasing the amount of cash drawers where feasible. Where budget restrictions and staffing levels limit the segregation of duties, management will look to increase control through properly maintained cash receipt logs and retention of support documentation. It is the intention of management to take the necessary steps to communicate to all cash handling employees the County's commitment to maintaining an environment of strong and cost effective internal controls. Management recognizes that an increased risk of fraud exists due to these deficiencies.

2010-2 OUTSTANDING CHECKS NEED TO BE ESCHEATED

Condition: During our review of the General Fund, Sherriff Department, Flex Spending account, and Inmate Trust bank accounts, we noted that several of the outstanding checks were old and still outstanding. Some checks were written as far back as 2003. This issue was noted and reported in our prior year audit comments.

Criteria: Michigan Public Act 29 of 1995 provides that the County report and escheat unclaimed property to the State of Michigan. Michigan Department of Treasury Numbered Letter 2009-1 also gives guidance on this subject.

Cause: It appears that management has not communicated to the various responsible employees that compliance with the escheats law is necessary.

Effect: The County is not in compliance with Public Act 29 of 1995.

Recommendation: We recommend that outstanding checks be reviewed on an annual basis and any checks that are outstanding for more than one year be appropriately escheated to the State of Michigan unless an outstanding check can be reissued to the payee.

Corrective Action Response: Management will review the outstanding checks with the departments listed and determine if the checks can be reissued to the payee or should be escheated to the State of Michigan. Future escheatments will be reviewed and handled appropriately.

2011-1 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the County's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund. In addition, the County budgeted for a deficit fund balance in one (1) Special Revenue Fund.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended September 30, 2011

Section II - Financial Statement Findings - Continued

2011-1 UNFAVORABLE BUDGET VARIANCES - CONCLUDED

Criteria: The Uniform Budgeting and Accounting Act requires the County to amend the original adopted budget “as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined”. The Act also states that “an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body”.

Cause: The County did not effectively monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

Effect: The County adopted the budget for the General Fund at the department level and the Special Revenue funds at the total expenditure level. Having unfavorable budget variances and budgets with deficit fund balances as described above, the County is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the County monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

Corrective Action Response: The Uniform Budgeting and Accounting Act requires the County to amend its original budget when “it appears to the chief administrative officer or to the legislative body that the actual and probable revenues from taxes and other sources in a fund are less than the estimated revenues” (MCL 141.437(2)). Funding schedules from sources such as the State of Michigan are not reliable, thereby making it impossible to know whether funds from these sources will be provided before the close of a given fiscal year.

Budgets are reviewed and monitored by the Administration office throughout the year. Projections for final year expenses are made in September of each fiscal year and the budget is adjusted accordingly. Occasionally, final expenses are not known until well after the end of the fiscal year and result in overages. The 2011 expenditure budget overages were minimal in comparison to the entire budget.

2011-2 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

Condition: The County requires the assistance of the independent auditors to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This issue was noted and reported in our prior year audit comments.

Criteria: Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Statement on Auditing Standards No. 115 (SAS 115), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that responsibility for the financial statements rests with the County’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 accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Cause: Employees and/or management have limited technical expertise to prepare the County’s financial statements and notes to the financial statements in accordance with accounting principles generally accepted in the United States of America.

Effect: The County does not have internal controls in place to ensure that the appropriate staff members are able to fully understand the requirements of preparing the financial statements and so that they may take responsibility for the statements and the appropriate disclosures.

SCHEDULE OF FINDINGS - CONCLUDED

Year Ended September 30, 2011

Section II - Financial Statement Findings - Concluded

2011-2 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP - CONCLUDED

Recommendation: We recommend the County consider providing applicable employees with training that would allow them to attain the qualifications required to fully understand the GAAP financial statement preparation process. Should the County choose not to address this issue, management and the Board of Commissioners should realize that an increased risk is present. This recommendation is not intended to imply that the contractual agreement to provide audit services, which includes preparation of financial statements, is improper or should be changed. Generally accepted auditing standards, however, require us to comment if the applicable internal controls are not present.

Corrective Action Response: As recommended, the Director of Accounting Services will direct course selection of continuing professional education requirements so to obtain technical expertise to prepare the County's financial statements and notes to financial statements in accordance with GAAP.

2011-3 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries were proposed by the auditors to properly account for various financial statement amounts. These misstatements were not detected by the County's internal control over financial reporting.

Criteria: Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the recording of all appropriate journal entries so that the trial balances, from which the audited financial statements are prepared, reflect amounts that are in conformity with U.S. generally accepted accounting principles.

Cause: Material journal entries were not detected by the County's internal control over financial reporting.

Effect: Without the recording of these journal entries the financial statements would have been materially misstated.

Recommendation: We recommend that the County take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: While the County has established procedures for the review of all journal entries the key employee responsible was not in position for a significant part of the year. To ensure that material journal entries are properly recorded on the trial balance the Director of Accounting Services will review all journal entries to the general ledger throughout the year. In addition a checklist of common and recurring journal entries will be prepared and maintained to assist in the year end closing.

As recommended in Finding 2011-2 the Director of Accounting Services will seek technical training in the preparation of the County's financial statements. As this skill set develops monitoring internal control and reviewing financial reports will ensure management detects material misstatements.

Section III - Federal Award Findings and Questioned Costs

None noted.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2011

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

2009-1 REPEAT AUDIT COMMENTS

Condition: During our review of internal controls at the Sheriff's Department, the Trial Court, the Drain Office, Recycling Center, the Commission on Aging, and the Register of Deeds, we noted several opportunities to strengthen internal control and segregate duties in the cash receipting and disbursement procedures.

Resolution: Changes were not made to incorporate the recommended internal controls. We do not consider this issue to be resolved.

2010-1 REGISTER OF DEEDS

Condition: During our review of internal controls at the Register of Deeds Office, we noted several opportunities to strengthen internal control and segregate duties in the cash receipting procedures.

Resolution: The Register of Deeds has established a system of retaining records that indicate which employee closed cash drawers and prepared the daily deposit slip. The Register of Deeds no longer allows the key to the locked cash drawer to be left in the lock during the day. We consider these aspects of the finding for Register of Deeds to be resolved. Other aspects of the original finding are repeated in 2009-1.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2010-2 OUTSTANDING CHECKS NEED TO BE ESCHEATED

Condition: During our review of the General Fund, Sherriff Department, and Inmate Trust bank accounts, we noted that several of the outstanding checks were old and still outstanding. Some checks were written as far back as 2003.

Resolution: No outstanding checks were escheated. Additionally, we noted checks that apparently should have been escheated in the Flex Spending account. We do not consider this issue resolved.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None noted.