

**Isabella County, Michigan**

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

**September 30, 2015**

Isabella County, Michigan

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

**Report on Compliance for Each Major Federal Program**

We have audited Isabella County, Michigan's (the County) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2015. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The County's basic financial statements include the operations of the Isabella County Transportation Commission and the Isabella County Road Commission (the Road Commission), discretely presented component units, which received \$999,670 and \$1,561,385, respectively, in federal awards which are not included in the schedule for the year ended September 30, 2015. Our audit, described below, did not include the operations of Isabella County Transportation Commission because the component unit engaged us to perform a separate audit in accordance with OMB Circular A-133. During the year ended September 30, 2015, the Federal aid received and expended by the Road Commission was \$1,160,527 for contracted projects and \$400,858 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.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the County'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

### **Report on Internal Control Over Compliance**

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the County'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 a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 24, 2016, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Isabella County Road Commission and the Isabella County Medical Care Facility. The Road Commission represents 57%, 64%, and 37%, respectively, of the total assets, net position, and revenues of the component units, and the Medical Care Facility represents 14%, 12%, and 42%, respectively, of the total assets, net position, and revenues of the component units. Those financial statements were audited by other auditors whose report thereon has 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 24, 2016

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Revenues	Expenditures
U.S. DEPARTMENT OF JUSTICE				
Direct Award				
Bulletproof Vest Partnership Program	16.607	N/A	\$ 954	\$ 954
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through Michigan State Housing Development Authority				
Community Development Block Grant	14.228	MSC-2012-5824-HOA	120,689	120,689
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through Michigan State Police				
National Priority Safety Programs	20.616	PT-15-43	16,001	16,001
Hazardous Materials Emergency Preparedness Grant	20.703	HM-HMP-0439-14-01-00	1,496	1,496
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			17,497	17,497
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 <sup>(a)(c)</sup>				
Friend of the Court		CS/FOC-13-37001	438,863	438,863
Prosecuting Attorney		CS/PA-13-37002	29,033	29,033
Title IV-D Incentive Payments <sup>(b)(c)</sup>				
2012 Regular		N/A	78,435	78,435
			546,331	546,331
Foster Care (Title IV-E)	93.658	PROFC-11-37001	5,310	5,310
Total passed through Michigan Department of Human Services			551,641	551,641
Passed through Region VII Area Agency on Aging				
Special Programs for the Aging				
Title III, Part D	93.043	N/A	4,572	4,572
Title III, Part B <sup>(d)</sup>	93.044	N/A		
Case Coordination and Support			36,083	36,083
Personal Care			17	17
Respite			2,776	2,776
Homemaker			2,147	2,147
			41,023	41,023

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	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				
Title III, Part C-1 <sup>(d)</sup>	93.045	N/A		
Congregate Meals			\$ 65,978	\$ 65,978
Home Delivered Meals			<u>89,603</u>	<u>89,603</u>
			155,581	155,581
Title III, Part E	93.052	N/A		
Caregiver Training			15,308	15,308
Supplemental Funds			3,248	3,248
Kinship Care Funds			<u>1,006</u>	<u>1,006</u>
			19,562	19,562
Nutrition Services Incentive Program (NSIP) <sup>(d)</sup>	93.053	N/A		
Congregate Meals			22,711	22,711
Home Delivered Meals			<u>46,592</u>	<u>46,592</u>
			69,303	69,303
Medical Assistance Program	93.778	N/A	<u>15,573</u>	<u>15,573</u>
Total passed through Region VII Area Agency on Aging			<u>305,614</u>	<u>305,614</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			857,255	857,255

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year Ended September 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Revenues	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Michigan Department of Natural Resources 2010 Marine Safety Grant	97.012	N/A	\$ 3,200	\$ 3,200
Passed through Michigan State Police 2015 Emergency Management Performance Grant	97.042	EMW-2015-EP-00029-S01	9,449	9,449
2014 Emergency Management Performance Grant		EMW-2013-EP-00026-S01	<u>14,076</u>	<u>14,076</u>
			23,525	23,525
Passed through West Michigan Shoreline Regional Development Commission 2015 Homeland Security Grant	97.067	N/A	<u>6,316</u>	<u>6,316</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>33,041</u>	<u>33,041</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,029,436</u>	<u>\$ 1,029,436</u>

Isabella County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2015

**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.
- (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, 2015, basic financial statements to the expenditures of the County administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State/Local Revenue</u>	<u>Federal Award Expenditures</u>
PRIMARY GOVERNMENT			
GENERAL FUND			
Homeland Security	\$ 31,337	\$ -	\$ 31,337
Prosecutor - CRP	29,033	-	29,033
Prosecutor - FIA reimbursement	5,310	-	5,310
Sheriff grants	954	-	954
Traffic enforcement	16,001	-	16,001
Marine safety grant	3,200	-	3,200
Other Programs	<u>3,102,119</u>	<u>(3,102,119)</u>	<u>-0-</u>
TOTAL GENERAL FUND	3,187,954	(3,102,119)	85,835
CDBG HOUSING ASSISTANCE GRANT	120,689	-	120,689
TRIBAL CONTRIBUTION	38,963	(38,963)	-0-
COMMISSION ON AGING ACTIVITIES	936,760	(631,146)	305,614
NONMAJOR SPECIAL REVENUE FUNDS			
Friend of the Court	517,298	-	517,298
Other	<u>1,362,594</u>	<u>(1,362,594)</u>	<u>-0-</u>
TOTAL NONMAJOR SPECIAL REVENUE FUNDS	<u>1,879,892</u>	<u>(1,362,594)</u>	<u>517,298</u>
TOTAL	<u>\$ 6,164,258</u>	<u>\$ (5,134,822)</u>	<u>\$ 1,029,436</u>

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INDEPENDENT AUDITOR'S 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, in accordance with the 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, 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 the Isabella County, Michigan (the County), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 24, 2016. Our report includes a reference to other auditors who audited the financial statements of the Isabella County Medical Care Facility and the Isabella County Road Commission, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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.

Our consideration of internal control was for the limited purpose described in the first 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and are described in the accompanying schedule of findings and questioned costs as items 2015-001.

### Isabella County, Michigan's Response to Finding

The County's response to the findings identified in our audit is noted in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 24, 2016

Isabella County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2015

**Section I - Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Significant deficiency(ies) identified? \_\_\_\_\_ Yes  X  None reported

Noncompliance material to financial statements noted?  X  Yes \_\_\_\_\_ No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Significant deficiency(ies) identified? \_\_\_\_\_ Yes  X  None reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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  X  No

**Section II - Financial Statement Findings**

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2015-002 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 Child Care and Register of Deeds Automation funds. A similar issue was noted and reported in our prior year audit comments.

Criteria: The Uniform Budgeting and Accounting Act (Public Act 621 of 1978) 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".

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2015

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**Section II - Financial Statement Findings - Concluded**

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2015-002 UNFAVORABLE BUDGET VARIANCES - CONTINUED

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

Effect: The County is not in compliance with Public Act 621 of 1978, as amended.

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

Corrective Action Response: The County will monitor expenditures against adopted budgets and make appropriate budget amendments as needed. Finance staff will provide summary budget progress reports during monthly management meetings to assist departments in monitoring their budgets.

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**Section III - Federal Award Findings and Questioned Costs**

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None noted.

Isabella County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2015

FINDINGS/NONCOMPLIANCE

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

**2014-001 REPEAT AUDIT COMMENTS**

Condition: During our review of internal controls at the Sheriff's Department and the Recycling Center, we noted several opportunities to strengthen internal control and segregate duties in the cash receipting and disbursement procedures.

Resolution: Appropriate changes were made and this issue was not noted during the current audit. We consider this issue resolved.

**2014-002 PROSECUTING ATTORNEY RECEIPTS**

Condition: During our testing of receipts at the Prosecuting Attorney's office, we noted several opportunities to strengthen internal controls. We noted that not all payments received were recorded in the receipt book. As a result, we were unable to trace some receipts to the Treasurer's office transmittal. Also, we noted that some revenue is transmitted to the Treasurer's office monthly, while other payments are held for several months until they are transmitted.

Resolution: Appropriate changes were made and this issue was not noted during the current audit. We consider this issue resolved.

**2014-003 OUTSTANDING CHECKS NEED TO BE ESCHEATED**

Condition: During our review of the Flex Spending and Inmate Trust bank accounts, we noted that several of the outstanding checks were old and sill outstanding.

Resolution: Applicable checks have been escheated or reissued as required. We consider this issue resolved.

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

**2014-004 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, and five (5) special revenue funds. A similar issue was noted and reported in our prior year audit comments.

Resolution: This issue is evaluated each year and in the current year we found expenditures exceeded the amounts appropriated in two (2) special revenue funds. We consider this issue resolved only as it pertains to the fiscal year ended September 30, 2014.