

Isabella County, Michigan

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

September 30, 2016

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 THE UNIFORM GUIDANCE

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 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, 2016. 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 \$1,185,572 and \$1,171,956, respectively, in federal awards which are not included in the schedule for the year ended September 30, 2016. 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 the Uniform Guidance. During the year ended September 30, 2016, the Federal aid received and expended by the Road Commission was \$1,171,956 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance

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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 16, 2017, 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 36%, respectively, of the total assets, net position, and revenues of the component units, and the Medical Care Facility represents 13%, 12%, and 41%, 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 purposes of additional analysis as required by the Uniform Guidance 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 basic 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 16, 2017

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2016

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	\$ 2,738	\$ 2,738
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	146,554	146,554
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Michigan Department of Health and Human Services				
Child Support Enforcement (Title IV-D) ^(b)				
93.563				
Cooperative Reimbursement ^(a)				
Friend of the Court		CS/FOC-13-37001	486,149	486,149
Prosecuting Attorney		CS/PA-13-37002	24,410	24,410
Title IV-D Incentive Payments ^(d)				
2012 Regular		N/A	79,595	79,595
			590,154	590,154
Foster Care (Title IV-E)	93.658	PROFC-11-37001	5,004	5,004
Total passed through Michigan Department of Health and Human Services			595,158	595,158
Passed through Region VII Area Agency on Aging				
Special Programs for the Aging				
Title III, Part D	93.043	N/A	3,613	3,613
Aging Cluster ^(c)				
Title III, Part B	93.044	N/A		
Case Coordination and Support			38,405	38,405
Respite			4,457	4,457
Homemaker			3,998	3,998
			46,860	46,860

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2016

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				
Aging Cluster - concluded				
Title III, Part C-1 ^(c)				
Congregate Meals				
Home Delivered Meals				
	93.045	N/A	\$ 35,608	\$ 35,608
			<u>50,186</u>	<u>50,186</u>
			85,794	85,794
Nutrition Services Incentive Program (NSIP) ^(c)				
Congregate Meals				
Home Delivered Meals				
	93.053	N/A	12,550	12,550
			<u>24,134</u>	<u>24,134</u>
			<u>36,684</u>	<u>36,684</u>
Total Aging Cluster			169,338	169,338
Title III, Part E				
Caregiver Training				
Supplemental Funds				
Kinship Care Funds				
	93.052	N/A	15,359	15,359
			2,951	2,951
			<u>998</u>	<u>998</u>
			19,308	19,308
Medical Assistance Program			<u>6,472</u>	<u>6,472</u>
Total passed through Region VII Area Agency on Aging			<u>198,731</u>	<u>198,731</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			793,889	793,889

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year Ended September 30, 2016

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	\$ 7,100	\$ 7,100
Passed through Michigan State Police 2016 Emergency Management Performance Grant	97.042	EMW-2016-EP-00029-S01	7,475	7,475
Passed through West Michigan Shoreline Regional Development Commission	97.067			
2014 Homeland Security Grant		EMW-2014-55-00059	15,070	15,070
2015 Homeland Security Grant		EMW-2015-55-00063	5,127	5,127
2016 Homeland Security Grant		N/A	3,524	3,524
Total passed through West Michigan Shoreline Regional			23,721	23,721
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			38,296	38,296
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 981,477	\$ 981,477

(e)

Isabella County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2016

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 the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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. The County has elected not to use the 10 percent de minimus indirect rate allowed under the Uniform Guidance.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (e) 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 Health and 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) Denotes program tested as a "major program".
- (c) Program considered a cluster by the U.S. Department of Health and Human Services.
- (d) 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.
- (e) The County did not pass through any Federal awards to subrecipients.

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the federal revenues reported in the September 30, 2016 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	\$ 31,196	\$ -	\$ 31,196
Prosecutor - CRP	24,410	-	24,410
Prosecutor - FIA reimbursement	5,004	-	5,004
Sheriff grants	2,738	-	2,738
Marine safety grant	7,100	-	7,100
Other Programs	2,837,410	(2,837,410)	-0-
TOTAL GENERAL FUND	2,907,858	(2,837,410)	70,448
CDBG HOUSING ASSISTANCE GRANT	146,554	-	146,554
TRIBAL CONTRIBUTION	44,015	(44,015)	-0-
COMMISSION ON AGING ACTIVITIES	811,680	(612,949)	198,731
NONMAJOR SPECIAL REVENUE FUNDS			
Friend of the Court	565,744	-	565,744
Other	1,534,636	(1,534,636)	-0-
TOTAL NONMAJOR SPECIAL REVENUE FUNDS	2,100,380	(1,534,636)	565,744
TOTAL	<u>\$ 6,010,487</u>	<u>\$ (5,029,010)</u>	<u>\$ 981,477</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, 2016, 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 16, 2017. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 16, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2016

Section I - Summary of Auditor's Results

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? _____ Yes X 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 in accordance with 2 CFR 200.516(a)? _____ Yes X 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: \$ 750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

Isabella County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2016

FINDINGS/NONCOMPLIANCE

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

None noted.

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

2015-001 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.

Resolution: This issue is evaluated each year and in the current year we found only immaterial budget variances. We consider this issue resolved.