

LAPEER COUNTY, MICHIGAN

**SUPPLEMENTARY INFORMATION TO
FINANCIAL STATEMENTS**

(FEDERAL AWARDS)

FOR THE YEAR ENDED DECEMBER 31, 2013



LAPEER COUNTY, MICHIGAN

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**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY FINANCIAL INFORMATION**

To the Board of Commissioners
of Lapeer County
Lapeer, 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 Lapeer County, Michigan (the "County"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated June 20, 2014, which contained unmodified opinions on those financial statements. Our report includes a reference to 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 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 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 financial statements or to the 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 financial statements as a whole.

Stewart Beauvais & Whipple, P.C.

Certified Public Accountants

June 20, 2014

LAPEER COUNTY, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>			
<u>Passed Through the Michigan Department of Community Health:</u>			
Special Supplemental Food Program for Women, Infants, and Children - WIC	10.557	CPBC FY13	\$ 319,596 *
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>319,596</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>			
<u>Passed Through Michigan Jobs Commission:</u>			
Community Development Block Grant/ Small Cities Program - Housing Rehabilitation	14.228	MSC 2009-0751-HOA	395
Housing Rehabilitation		MSC 2011-0751-HOA	117,117
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>117,512</u>
<u>U.S. DEPARTMENT OF JUSTICE:</u>			
<u>Passed Through the Michigan Department of State Police:</u>			
Edward Byrne Memorial Justice Assistance Program - TNU	16.738	2012-DJ-BX-0109	55,906 *
<u>Passed Through the Michigan Department of Human Services:</u>			
State Criminal Alien Assistance Program- Jail Feeding Prisoners	16.606	N/A	9,300
Bulletproof Vest Partnership Program	16.607	N/A	4,501
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>69,707</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY:</u>			
<u>Passed Through The Michigan Department of Environmental Quality:</u>			
State Drinking Water Revolving Fund Loan Program - Standard/Operator Assistance Capacity Development	66.471	F597548710	1,411 *
		F597548710	450 *
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>1,861</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>			
<u>Passed Through the Valley Area Agency on Aging:</u>			
Special Programs for the Aging Cluster - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers -	93.044		
Case Coordination and Support		N/A	2,030 *
Care Management		N/A	309 *
Medication Management		N/A	4,680 *
Senior Center Staffing		N/A	3,000 *
Homemaker, P/C		N/A	21,618 *
			<u>31,637</u>

See Notes to Schedule of Expenditures of Federal Awards

LAPEER COUNTY, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (cont'd):</u>			
<u>Passed Through the Valley Area on Aging (cont'd):</u>			
Special Programs for the Aging Cluster (cont'd) -			
Special Programs for the Aging - Title III, Part C -			
Nutrition Services -			
	93.045		
Congregate Meals		N/A	\$ 39,124 *
Home Delivered Meals		N/A	75,396 *
			<u>114,520</u>
Special Programs for the Aging - Title III, Part C -			
Nutrition Services Incentive Program -			
	93.053		
Congregate Meals		N/A	6,106 *
Home Delivered Meals		N/A	50,024 *
			<u>56,130</u>
Total Special Programs for the Aging Cluster			<u>202,287</u>
<u>Passed through the Michigan Department of Human Services:</u>			
Child Support Enforcement - Title IV-D -			
	93.563		
Friend of the Court - Cooperative Reimbursement		CSFOC13-44001	605,306
Prosecuting Attorney - Cooperative Reimbursement		CSPA13-44002	83,433
Federal Incentive Payments		NA	147,168
			<u>835,907</u>
Access and Visitation			<u>265</u>
	93.597	N/A	
<u>Passed Through Michigan Department of Community Health:</u>			
Immunization Cooperative Agreements -			
	93.268		
Immunization IAP		CPBC FY13	41,028 *
Vaccine Doses		N/A	160,546 *
			<u>201,574</u>
Public Health Emergency Preparedness -			
	93.069		
Bioterrorism		CPBC FY13	129,059 *
Bioterrorism - Cities Readiness Initiative		CPBC FY13	25,413 *
			<u>154,472</u>
State Children Insurance Program -			
MI - Child	93.767	N/A	<u>37,588 *</u>
Medical Assistance Program Title XIX-			
	93.778		
Medicaid Outreach		CPBC FY13	16,977 *
Screening and Annual Project Review		NA	11,990 *
CSHCS - Medicaid Outreach		CPBC FY13	4,774 *
CSHCS - Outreach & Advocacy		CPBC FY13	20,000 *
			<u>53,741</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,485,834</u>

See Notes to Schedule of Expenditures of Federal Awards

LAPEER COUNTY, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>			
<u>Passed Through The Michigan 3rd District Regional Homeland Security Planning Board:</u>			
Emergency Management Performance Grant	97.042	EMW-2013-EP-00033	\$ <u>35,774</u>
<u>Passed through Alcona County:</u>			
Homeland Security Grant Program -	97.067		
FY 10 Homeland Security Grant Program		2010-SS-TO-0009	20,380
FY 11 Homeland Security Grant Program		EMW-2011-SS-00103	38,572
			<u>58,952</u>
<u>Passed Through The Michigan Department of Natural Resources:</u>			
Boating Safety Financial Assistance -	97.012		
Marine Safety		N/A	<u>7,056</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>101,782</u>
Total Federal Awards			<u>\$ 2,096,292</u>

See Notes to Schedule of Expenditures of Federal Awards

LAPEER COUNTY, MICHIGAN

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Lapeer County (the “County”) for the year ended December 31, 2013. Expenditures reported on the Schedule are reported on the same basis of accounting, the modified accrual basis, as the financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The County’s basic financial statements include the Lapeer County Road Commission and Lapeer County Land Bank Authority as discretely presented component units. These entities are audited separately by the auditors of the primary government in the case of the Lapeer County Road Commission and other auditors in the case of the Lapeer County Land Bank Authority and, if necessary, audits in accordance with OMB Circular A-133 are issued. For 2013, audits in accordance with OMB Circular A-133 were not required for either of these component units.

Because the Schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position, or cash flows of the County.

NOTE 2 - FISCAL REPORTING:

Certain County departments and their grants are reported on a September 30 year end basis; these are denoted on the Schedule with an asterisk (*).

NOTE 3 - DRINKING WATER REVOLVING FUND:

The Michigan Municipal Bond Authority provides loans through the Federal Program – Capitalization Grants for Drinking Water State Revolving Funds. As a result, the information on the loans (both federal and state portions) for projects that have outstanding loan balances at December 31, 2013 are as follows:

	Project		
	# 7042-01	# 7191-01	# 7192-01
Authorized	<u>\$ 1,021,207</u>	<u>\$ 695,000</u>	<u>\$ 2,090,000</u>
Balance 12/31/13	<u>\$ 361,507</u>	<u>\$ 514,868</u>	<u>\$ 1,602,694</u>
2013 Activity			
Proceeds	\$ -	\$ -	\$ -
Expenditures			
Capital Outlay	-	-	-
Debt Service			
Principal	55,000	30,000	90,000
Interest and Fiscal Charges	9,725	11,578	35,970

LAPEER COUNTY, MICHIGAN

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

NOTE 4 - SUBRECIPIENTS:

The County provided federal awards to other local governments (subrecipients) for the following programs, which are included as part of the federal expenditures presented on the Schedule:

<u>Program</u>	<u>CFDA Number</u>	<u>Amount</u>
Edward Byrne Memorial Justice Assistance Program – TNU	16.738	\$ 42,773

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

To the Board of Commissioners
of Lapeer County
Lapeer, 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 Lapeer County, Michigan (the "County") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 20, 2014. Our report includes a reference to other auditors who audited the financial statements of the Lapeer County Land Bank Authority, as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors.

Internal Control over Financing 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as items 2013-002 and 2013-003 to be significant deficiencies.

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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management in a separate letter dated June 20, 2014.

Lapeer County, Michigan's Response to Findings

The County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Lapeer County, Michigan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lapeer County, Michigan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

June 20, 2014

**INDEPENDENT AUDITOR'S 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**

To the Board of Commissioners
of Lapeer County
Lapeer, Michigan

Report on Compliance for Each Major Program

We have audited Lapeer 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 December 31, 2013. 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 Lapeer County Land Bank Authority and the Lapeer County Road Commission as discretely presented component units. Our audit described below did not include the operations of the Lapeer County Land Bank Authority because the entity engaged other auditors to perform an audit under *Government Auditing Standards* and an audit in accordance with OMB Circular A-133 was not required. The Lapeer County Road Commission was audited under *Government Auditing Standards* separately by us and an audit in accordance with OMB Circular A-133 was not required.

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 Non-Profit 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 December 31, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-004 and 2013-005. Our opinion on each major federal program is not modified with respect to these matters.

The County's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-004 and 2013-005 that we consider to be significant deficiencies.

The County's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

Stewart Beauvais & Whipple, PC.

Certified Public Accountants

June 20, 2014

LAPEER COUNTY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

Section I – Summary of Auditor’s Results:

Financial Statements

Type of auditor’s report issued: Unmodified

Internal controls over financial reporting:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified not considered to be material weaknesses? 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 deficiency(ies) identified not considered to be material weaknesses? yes 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 Circular A – 133, Section 510(a)? yes no

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #10.557	Special Supplemental Food Program for Women, Infants and Children - WIC
CFDA #93.563	Child Support Enforcement

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

Auditee qualified as low-risk auditee? yes no

LAPEER COUNTY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

Section II – Financial Statement Findings:

2013-001 Material Adjusting Entries

Type: Material weakness in internal controls over financial reporting.

Criteria: Statement on Auditing Standards No. 115, “Communicating Internal Control Related Matters Identified in the Audit,” specifies that if material audit adjustments are required to be proposed, the entity has a material weakness in internal control over financial reporting.

Condition: Material adjusting entries were proposed during the audit. Material entries were also proposed to the Medical Care Facility portion of the audit, which has a separate accounting system.

Cause: The County, having limited personnel due to budget realities, has placed time restraints on the finance department. This, along with certain department’s not taking responsibility for initiating journal entries, has resulted in material audit adjustments being proposed.

Effect: There is more than a remote likelihood that a misstatement in the Comprehensive Annual Financial Report or Schedule of Expenditures of Federal Awards that is material and would not be prevented or detected by Lapeer County’s internal control.

Recommendation: Departments should be held more responsible for initiating required journal entries through preparing the entry or, at a minimum, providing the finance department with required information. This communication process should be coordinated to also provide the entry on a timelier basis throughout the year. Written closing procedures should be prepared and communicated to the various departments and component units involved in the County financial reporting process to delineate the responsibilities, documentation required, and deadlines for submission.

View of responsible officials and planned corrective action: Departments have been becoming more involved with initiating required journal entries and particularly now that the Drain and Treasurer departments are becoming more involved will reduce the risk of adjusting entries not being recorded.

2013-002 Preparation of the Financial Statements in Accordance with Generally Accepted Accounting Principles

Type: Significant deficiency in internal controls over financial reporting.

Criteria: Accounting standards specifies that management must design, implement and maintain control-related policies and procedures to assure that financial data is properly assembled, analyzed, classified, recorded, and reported. This includes the preparation of the Comprehensive Annual Financial Report prepared in accordance with generally accepted accounting principles and presentation requirements of the Government Finance Officers Association.

Condition: The County has historically relied on its independent external auditors for their expertise and technical skills to prepare and present the Comprehensive Annual Financial Report in accordance with generally accepted accounting principles, including the footnotes and GASB No. 34 financial statements, as part of the annual audit process. Management then reviews the report once it has been prepared but hasn’t acquired sufficient familiarity with all generally accepted accounting principles and financial statement presentation and disclosure requirements to prevent misstatements.

Cause: The County has made the decision that it is more cost effective/efficient to outsource the preparation of its Comprehensive Annual Financial Report to the external auditors than to incur the time and expense of obtaining the necessary training and expertise required to prepare the report in accordance with generally accepted accounting principles.

Effect: There is the possibility that a misstatement of the County's Comprehensive Annual Financial Report that is more than inconsequential could occur and not be prevented or detected by the County's current internal control processes.

Recommendation: With the implementation of any internal control procedure both the efficiency and cost must be evaluated with the risk. We recommend that the County continue to evaluate the risk and cost of not performing this internal control function in-house.

View of responsible officials and corrective action: It has been evaluated and determined that it is more efficient and cost effective to have the auditor draft the financial statements. However, we recognize that Lapeer County Management is responsible for the Comprehensive Annual Financial Report and will increase our involvement and review process.

2013-003 Internal Service Fund working capital reserves should be evaluated and reduced to reasonable levels

Type: Significant deficiency in internal controls over financial reporting.

Criteria: OMB Circular A-87 establishes a reasonable level of working capital within net position as "up to 60 days cash expenses for normal operating purposes."

Condition: The County utilizes internal service funds to account for the financing of accrued liability claims, contributing to certain benefit plans, and acquiring capital assets that benefit the various departments and agencies throughout the county. Annually, the County determines the administrative rates to charge for these services. Over the past several years the charges have been more than sufficient to cover the expenses, including estimations for IBNR, and a reasonable level of working capital reserve to operate. Significant accumulations of net position exist in the Health Insurance, Unemployment Insurance, and Workers' Compensation funds, which could be considered amounts in excess of a reasonable working capital accumulation and potentially could lead to challenges by grant funding providers.

Cause: The County has maintained a philosophy that a reasonable funding level should provide for a potential catastrophic event that is probable of occurrence.

Effect: The County has substantial accumulations of net position over the working capital reserve levels established by OMB Circular A-87 for the Health Insurance, Unemployment Insurance, and Workers' Compensation funds as of December 31, 2013.

Recommendation: The County should reevaluate the current philosophy used to establish the annual rates and adjust the rates going forward to reduce net position levels of the Health Insurance, Unemployment Insurance, and Workers' Compensation funds to achieve reasonable levels of working capital reserves.

View of responsible officials and planned corrective action: The County has reviewed the balances in the internal service funds. The County of Lapeer has historically self-funded the Unemployment and Workers' Compensation funds, while utilizing the premium markets for medical, dental, vision and life insurance, and is a member of MERS for employee benefit plans. It should be noted the County only charged a rate of .75% of payroll for both unemployment and workers' compensation in 2013 (a fraction of the cost the County would pay in the market). The County has elected to suspend charges for these services during budget years 2014 and 2015 to reach the

appropriate levels of working capital reserves. Monitoring of the accumulation of net position within these funds will be performed more frequently to comply with the Circular A-87 working capital reserves requirement and the administrative rates charged will be adjusted accordingly.

Section III – Federal Award Program Questioned Costs and Findings:

2013-004

Program - Federal Award Finding could have an effect on the reporting of federal programs on the Schedule of Expenditures of Federal Awards.

Type: Significant deficiency in internal control over the accurate reporting of federal programs on the schedule of expenditures of federal awards.

Criteria: The Schedule is considered an element of external financial reporting under SAS No. 115 requirements and also is used by granting and/or flow through grantors to monitor federal awards. As a result, correct reporting is an important requirement of federal award administration.

Condition: The County has implemented procedures to accumulate the required information to be reported on the Schedule. However, for the year ended December 31, 2013, the federal award schedule was not completed by management prior to the beginning of fieldwork.

Cause: The County, having limited personnel due to budget realities, has placed time restraints on the finance department to be able to monitor the various departments receiving federal funds.

Effect: There is more than a remote likelihood that a federal award could be reported incorrectly and possibly even omitted from the Schedule.

Questioned Costs: None.

Recommendation: County departments should become more responsible for documenting grant activity for the year to be reported on the Schedule. We recommend that each department provide the information required for the Schedule to the finance department (Federal Agency, pass through entity, federal program name and CFDA number, state name for program and pass through number, grant award and actual grant expenditures) in a summary form for the entire year.

View of responsible officials and planned corrective action: As an extension of our current monitoring, the County finance department will provide all departments with a form presenting the required information to be provided for the year. The finance department will request supporting documentation for grant monies and identification numbers, along with general ledger revenue and expenditure account numbers.

2013-005

Program - Child Support Enforcement - Title IV-D - CFDA #93.563

U.S. Department of Health and Human Services, Passed through the Michigan Department of Community Health, Grantor Numbers CSFOC13-44001 and CSPA13-44002

Program - Special Supplemental Food Program for Women, Infants, and Children - CFDA #10.557

U.S. Department of Agriculture, Passed through the Michigan Department of Community Health

Type: Significant deficiency in internal control over the major program and noncompliance with the allowable cost/cost principles requirement.

Criteria: OMB Circular A-87 establishes a reasonable level of working capital within net position as “up to 60 days cash expenses for normal operating purposes.”

Condition: The County utilizes internal service funds to account for the financing of accrued liability claims, contributing to certain benefit plans, and acquiring capital assets that benefit the various departments and agencies throughout the county. Annually, the County determines the administrative rates to charge for these services. Over the past several years the charges have been more than sufficient to cover the expenses, including estimations for IBNR, and a reasonable level of working capital reserve to operate. Significant accumulations of net position exist in the Health Insurance, Unemployment Insurance, and Workers’ Compensation funds, which could be considered amounts in excess of a reasonable working capital accumulation and potentially could lead to challenges by grant funding providers.

Cause: The County has maintained a philosophy that a reasonable funding level should provide for a potential catastrophic event that is probable of occurrence.

Effect: The County has accumulations of net position over the maximum working capital reserve levels established by OMB Circular A-87 for the Health Insurance, Unemployment Insurance, and Workers’ Compensation funds as of December 31, 2013. The County held combined working capital reserves for the three funds at December 31, 2013 of approximately 230 days, and it should be noted, the combined working capital reserves at December 31, 2012 were approximately 180 days.

Questioned Costs: A questioned cost of \$11,847 for Child Support Enforcement Program was determined based on a proration of the 2013 administrative rate charges for health, unemployment and workers’ compensation services made to the program (expenses charged to the PA and FOC Cooperative Reimbursement Programs) to the total charges for services (revenue from all sources recognized in the internal service funds) applied to the estimated annual allowable costs and this amount multiplied by the federal participation percentage.

The same proration calculation as described above resulted in a questioned cost determination that was below the \$10,000 threshold for the Special Supplemental Food Program for Women, Infants, and Children and the other federal awards reported on the SEFA.

Summary of questioned costs:

Child Support Enforcement -	
CSFOC13-44001	\$10,578
CSPA13-44002	1,269
WIC	-

Recommendation: The County should reevaluate the current philosophy used to establish the annual rates and adjust the rates going forward to reduce net position levels of the Health Insurance, Unemployment Insurance, and Workers’ Compensation funds to achieve reasonable levels of working capital reserves.

View of responsible officials and planned corrective action: The County has reviewed the balances in the internal service funds. The County of Lapeer has historically self-funded the Unemployment and Workers’ Compensation funds, while utilizing the premium markets for medical, dental, vision and life insurance, and is a member of MERS for employee benefit plans. It should be noted the County only charged a rate of .75% of payroll for both unemployment and workers’ compensation in 2013 (a fraction of the cost the County would pay in the market). The County has elected to suspend charges for these services during budget years 2014 and 2015. This should allow us to reach more reasonable levels of working capital reserves. The County will establish procedures to monitor the net position of the internal service funds to ensure compliance with this requirement.

LAPEER COUNTY, MICHIGAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

The following responses were provided by John Biscoe, Administrator/Controller of Lapeer County for the findings reported in the 2012 single audit.

2012-01

Material Adjusting Entries.

In preparing adjusting entries, the Finance Department and County Management actively pursues the information to make timely and accurate entries. However, some information is not provided and available (departments, component units and sub-recipients) until after the audit has commenced. Hence, some entries will always be adjusting entries. The County will continue working with these entities to implement procedures to better monitor these activities.

2012-02

Preparation of the Financial Statements in Accordance with Generally Accepted Accounting Principles.

We have always reviewed the financial information; however, as a result of SAS No. 115, we will expand our review to GAAP presentation. Due to limited staff and current knowledge of GAAP, we do not foresee this comment being omitted for 2014. However, we do anticipate increased controls over reporting based on an increased effort of the review policies and improvement in the recording of year-end adjusting entries.

2012-03

Accurate and Complete Reporting of Information in the Schedule of Expenditures of Federal Awards.

Due to time restraints we did not accomplish improvement in the accumulation of documentation required for the Schedule of Expenditures of Federal Awards. Our intent is to provide a form presenting the required information to be provided for the year. An increase in communication will be made to help assure the information and supporting documentation is correct. The implementation of this form is expected to occur in 2014.

2012-04

Subrecipient Monitoring Process

We believe this matter has been addressed and no further corrective action is required.