

LAPEER COUNTY, MICHIGAN

**SUPPLEMENTARY INFORMATION TO
FINANCIAL STATEMENTS**

(FEDERAL AWARDS)

FOR THE YEAR ENDED DECEMBER 31, 2014



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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated June 16, 2015, 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 16, 2015

LAPEER COUNTY, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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) - Resident Services	10.557		
Breastfeeding		IW100342	\$ 309,726 *
		IW100342	21,352 *
			<u>331,078</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>331,078</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 2011-0751-HOA	<u>111,091</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>111,091</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	50,359 *
<u>Passed Through the Michigan Department of Human Services:</u>			
Bulletproof Vest Partnership Program	16.607	N/A	<u>3,744</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>54,103</u>
<u>U.S. GENERAL SERVICES ADMINISTRATION:</u>			
<u>Direct Program:</u>			
Donation of Federal Surplus Personal Property - Donation Program	39.003		
		N/A	<u>190,510</u>
TOTAL U.S. GENERAL SERVICES ADMINISTRATION			<u>190,510</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	66.471		
Capacity Development		FS97548711	1,411 *
		FS97548712	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	6,555 *
Medication Management		N/A	3,871 *
Homemaker, P/C		N/A	32,594 *
			<u>43,020</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, 2014**

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	\$ 50,393 *
Home Delivered Meals		N/A	92,253 *
			<u>142,646</u>
Special Programs for the Aging - Title III, Part C -			
Nutrition Services Incentive Program -			
	93.053		
Congregate Meals		N/A	9,263 *
Home Delivered Meals		N/A	52,128 *
			<u>61,391</u>
Total Special Programs for the Aging Cluster			<u>247,057</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	588,356
Prosecuting Attorney - Cooperative Reimbursement		CSPA13-44002	65,142
Federal Incentive Payments		NA	153,503
			<u>807,001</u>
Access and Visitation	93.597	N/A	<u>1,200</u>
Foster Care -			
	93.658		
Title IV-E		PROFC14-44001	1,705
Title IV-E		PROFC14-44002	4,931
			<u>6,636</u>
<u>Passed Through Michigan Department of Community Health:</u>			
Immunization Cooperative Agreements -			
	93.268		
Immunization IAP		H23 CCH522556	40,531 *
Vaccine Doses		N/A	189,546 *
			<u>230,077</u>
Public Health Emergency Preparedness -			
	93.069		
Bioterrorism		U90TP000528	105,514 *
Bioterrorism - Cities Readiness Initiative		U90TP000528	28,537 *
			<u>134,051</u>
Medical Assistance Program Title XIX-			
	93.778		
Medicaid Outreach		05 U05M15ADM	22,378 *
Screening and Annual Project Review		NA	8,755 *
CSHCS - Medicaid Outreach		05 U05M15ADM	9,675 *
CSHCS - Outreach & Advocacy		05 U05M15ADM	20,000 *
			<u>60,808</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,486,830</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, 2014**

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>32,651</u>
<u>Passed through Alcona County:</u>			
Homeland Security Grant Program -	97.067		
FY 11 Homeland Security Grant Program		EMW-2011-SS-00103	34,196
FY 12 Homeland Security Grant Program		EMW-2012-SS-00055	12,810
FY 13 Homeland Security Grant Program		EMW-2013-SS-00049	22,302
			<u>69,308</u>
<u>Passed Through The Michigan Department of Natural Resources:</u>			
Boating Safety Financial Assistance - Marine Safety	97.012	N/A	<u>7,600</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>109,559</u>
Total Federal Awards			<u>\$ 2,285,032</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, 2014

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, 2014. 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 2014, 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 - NONCASH ASSISTANCE:

The value of Vaccine Doses, part of the Immunization Cooperative Agreements (CFDA #93.268), has been valued on the Schedule based on the assessed value provided by the Michigan Department of Community Health (pass-through grantor). The surplus property received under the Donation of Federal Surplus Personal Property (CFDA #39.003), has been valued on the Schedule based on the assessed value (23.3% of historical cost) provided by the U.S. General Services Administration.

LAPEER COUNTY, MICHIGAN

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

NOTE 4 - 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, 2014 are as follows:

	<u>Project</u>		
	<u># 7042-01</u>	<u># 7191-01</u>	<u># 7192-01</u>
Authorized	<u>\$ 1,021,207</u>	<u>\$ 695,000</u>	<u>\$ 2,090,000</u>
Balance 12/31/14	<u>\$ 306,507</u>	<u>\$ 484,868</u>	<u>\$ 1,512,694</u>
2014 Activity			
Proceeds	\$ -	\$ -	\$ -
Expenditures			
Capital Outlay	-	-	-
Debt Service			
Principal	55,000	30,000	90,000
Interest and Fiscal			
Charges	8,350	10,941	34,057

NOTE 5 - 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	\$ 40,127

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, 2014, 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 16, 2015. 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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 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 consider the deficiencies described in the accompany schedule of findings and questioned costs as items 2014-003 and 2014-004 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 16, 2015.

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 the County'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.

Stewart Beauvais & Whipple, P.C.
Certified Public Accountants

June 16, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY 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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and is described in the accompanying schedule of findings and questioned costs as item 2014-006. Our opinion on each major federal program is not modified with respect to this matter.

The County's response to the noncompliance finding identified in our audit is described 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 compliance and, accordingly, we express no opinion on the response.

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 2014-005 and 2014-006 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 16, 2015

LAPEER COUNTY, MICHIGAN

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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 #93.069	Public Health Emergency Preparedness
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, 2014

Section II – Financial Statement Findings:

2014-001 Material Adjusting Entries

Type: Material weakness in internal controls over financial reporting.

Criteria: Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles. 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: During our audit, we identified and proposed certain material adjustments (which were approved and posted by management) to adjust the County’s general ledger to the appropriate balances. Material entries were also identified and proposed to the Medical Care Facility portion of the audit, which has a separate accounting system.

Cause: The County and Medical Care Facility’s internal controls did not detect all adjustments necessary to properly record year-end balances.

Effect: As a result of this condition the following areas were initially misstated:

- Certain transactions relative to the Drain Funds required correction of overstated transfers-out in the debt funds and overstated transfers-in for the Special Assessment Drain Fund of approximately \$270,000.
- Unearned revenue was overstated and revenue was understated by approximately \$300,000 in the Health Department Fund and approximately \$62,000 in the Animal Control Fund.
- Expense and accounts payable in the Retiree Healthcare Fund were adjusted for an understatement of approximately \$156,000.
- Various adjustments proposed to the Medical Care Facility segment of the audit. Some of the more significant misstatements were as follows:
 - Prepaid expenses were overstated by approximately \$37,000, accounts payable overstated by approximately \$150,000 and expenses overstated by approximately \$113,000.
 - Capital assets were overstated by approximately \$58,000, accrued expenses overstated by \$73,000 and gain on disposal of equipment understated by \$15,000.

Recommendation: Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustments.

View of responsible officials and planned corrective action: Management agrees with the adjustments proposed by its auditors and they have been posted to the County’s records.

2014-002 Segregation of Duties

Type: Material weakness in internal controls over financial reporting.

Criteria: Medical Care Facility - To mitigate the risk of fraudulent financial reporting and misappropriation of assets, there should be various controls in place including proper segregation of duties, restricted administrative access to the network and financial statement application, and proper review of bank statements and manual journal entries recorded.

Condition: During a review of the IT environment, it was noted that the controller has administrative access to both the network and financial statement application. In addition, the controller is the only individual that has the capability to record manual journal entries, noting no subsequent review of the entries performed other than the controller and administrator's monthly review of the Facility's financial statements.

Context: The failure to implement the aforementioned internal controls exposes the Facility to potential fraudulent financial reporting fraud or misappropriation of assets.

Cause: The Facility has not properly implemented segregation of duties as the controller has administrative access to both the network and the financial statement application.

Effect: The failure to implement the aforementioned internal controls exposes the Facility to potential fraudulent financial reporting or misappropriation of assets.

Recommendation: We recommend the Facility appoint an administrator to the network and financial statement application that is separate from the accounting function. We also recommend that the administrator or designee review all bank statements and manual journal entries recorded.

View of responsible officials and planned corrective action: The Facility will appoint an administrator to the network and financial statement application that is separate from the accounting function. The Facility will establish a policy and procedure that includes the administrator's review of bank statements and review and approval of all manual journal entries.

2014-003 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.

2014-004 Liabilities maintained in agency accounts should be reconciled to subsidiary records.

Type: Significant deficiency in internal controls over financial reporting.

Criteria: The County is required to keep accurate subsidiary records of the amounts held in agency liability accounts under their fiduciary responsibility. These accounts should be analyzed and reconciled on a regular basis (e.g., monthly or quarterly).

Condition: Several agency liability accounts did not agree to the subsidiary records. Several of the accounts were not reconciled to the general ledger for the entire fiscal year.

Cause: The County does not have a policy for the reconciling/monitoring of the agency accounts to the subsidiary records.

Effect: As a result of the condition, the County is exposed to an increased risk that misstatements, whether through error or fraud, may occur and not be prevented, or detected and corrected, on a timely basis. Balances in agency funds are particularly sensitive as this fund type, by its nature, is not subject to the normal budgetary oversight found in other funds. Accordingly, it is especially important that these funds be reconciled regularly to a complete detail. While the related cash balances were reconciled, this only verifies the amounts actually on hand, not the balances that should be on hand.

Recommendation: We recommend that the County implement a policy to ensure all agency accounts are reconciled to the general ledger on a regular basis.

View of responsible officials and planned corrective action: The finance department will prepare a policy on the administration and accounting procedures required for agency accounts including the periodic reconciliation of the account balances to the subsidiary records. The finance department will also sponsor a training session on the established policy.

Section III – Federal Award Program Questioned Costs and Findings:

2014-005 SEFA Population Determination and Accuracy

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, 2014, the federal award schedule completed by management prior to the beginning of fieldwork was found to have significant inaccuracies. These included classifying several awards with vendor relationships as federal for purposes of inclusion on the Schedule and the omission of federal surplus property received. The dollars associated with these matters were in the amount of \$355,440.

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. The County was unaware the surplus property received was subject to inclusion on the Schedule.

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 continue to expand their understanding of vendor versus subrecipient relationships and its impact on the Schedule. Furthermore, County departments should be made aware of the financial impact of federal surplus property and communicate any such property received with the finance department.

View of responsible officials and planned corrective action: We are working with our auditors to continue to increase understanding over the subrecipient versus vendor relationship distinction of federal awards and the effect it has on the Schedule. Furthermore, we have communicated to all departments the importance of communicating to the finance department any federal surplus property received.

2014-006 Internal Service Fund working capital reserves should be evaluated and reduced to reasonable levels

Program – Child Support Enforcement – Title IV-D-CFDA #93.563
U.S. Department of Health and Human Services, Passed Through the Michigan Department of Human Services, Grantor Numbers CSFOC 13-44001 and CSPA 13-44002.

Program – Special Supplemental Food Program for Woman, Infants and Children – CFDA #10.557
U.S. Department of Agriculture, Passed Through Michigan Department of Community Health, Grantor Number IW100342

Program – Public Health Emergency Preparedness – CFDA #93.069
U.S. Department of Health and Human Services, Passed Through Michigan Department of Community Health Grantor Number U90TP000528

Type: Significant deficiency in internal controls over major program and compliance with OMB A-87 cost principles.

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 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 Unemployment Insurance and Workers' Compensation funds as of December 31, 2014.

Questioned Costs: None.

Recommendation: The County should continue to monitor progress on their two-year plan to reduce net position levels of the 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. 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.

LAPEER COUNTY, MICHIGAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

The following responses were provided by John Biscoe, Administrator/Controller of Lapeer County for the findings reported in the 2013 single audit.

2013-001

Material Adjusting Entries.

Material audit adjustments were completed to adjust the County's general ledger to properly reflect the underlying supporting documentation.

This finding is repeated in the current year as finding 2014-001.

2013-002

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

The County is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The County has decided that it is more cost effective to outsource the preparation of the financial statements and footnotes to the auditors than incur the time and expense of preparing in-house.

This finding is repeated in the current year as finding 2014-003.

2013-004

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

The County is required to prepare a complete and accurate list of its federal award expenditures and prepare the schedule of expenditures of federal awards in accordance with OMB Circular A-133. There were certain instances noted where vendor versus subrecipient relationships and federal surplus property acquisitions were not properly accounted for on the SEFA for the current year.

This finding is repeated in the current year as finding 2014-005.

2013-003 and 2013-005

Excess Working Capital Reserves.

It is our understanding the pass-through grantor has conditionally accepted the County's proposed corrective action subject to future evaluation of the working capital reserves for the Unemployment and Workers' Compensation Funds.

The net positions at December 31, 2014 for the Unemployment and Workers' Compensation Funds have been substantially reduced through a combination of suspension of charges and realignment via interfund transfers to the Retirement Fund. The County is in the initial year of a two-year process to reduce the excess working capital reserves to an acceptable level.

This finding is repeated in the current year as finding 2014-006.