

LAPEER COUNTY, MICHIGAN

**SUPPLEMENTARY INFORMATION TO
FINANCIAL STATEMENTS**

(FEDERAL AWARDS)

FOR THE YEAR ENDED DECEMBER 31, 2012



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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated June 12, 2013, which contained unmodified opinions on those financial statements. 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 expenditure 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 12, 2013

LAPEER COUNTY, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 FY12	\$ 333,001
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>333,001</u>
<u>U.S. DEPARTMENT OF COMMERCE:</u>			
<u>Passed through Bay County:</u>			
FY 08 Public Safety Interoperable Communications Grant	11.555	N/A	4,237
Total U.S. DEPARTMENT OF COMMERCE			<u>4,237</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	53,182
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>53,182</u>
<u>U.S. DEPARTMENT OF JUSTICE:</u>			
<u>Passed Through the Michigan Department of State Police:</u>			
JAG Program Cluster - Edward Byrne Memorial Justice Assistance Program - TNU	16.738	2011-DJ-BX-2240	58,822
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program - Grants to States and Territories	16.803	2009-SU-B9-0017	97,619
Total JAG Program Cluster			156,441
Total Passed Through the Michigan Department of State Police			156,441
<u>Passed Through the Michigan Department of Human Services:</u>			
State Criminal Alien Assistance Program- Jail Feeding Prisoners	16.606	N/A	1,661
Bulletproof Vest Partnership Program	16.607	N/A	3,223
Total Passed Through The Michigan Department of Human Services			4,884
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>161,325</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>			
<u>Passed Through the Michigan Department of State Police:</u>			
Hazardous Materials Emergency Planning Grant	20.703	N/A	1,480
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>1,480</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, 2012**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY:</u>			
<u>Passed Through The Michigan Department of Environmental Quality:</u>			
Capitalization Grant for Drinking Water State Revolving Fund - Arsenic Grant	66.468	N/A	\$ 450
Operators Certification	66.471	N/A	<u>1,729</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>2,179</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>			
<u>Passed Through - Valley Area Agency on Aging:</u>			
Special Programs for the Aging - Disease Prevention and Health Promotion Services - Title III - Part D - Health Screening	93.043	N/A	<u>1,035</u>
Special Programs for the Aging Cluster - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers - Case Coordination	93.044	N/A	6,177
Medication Management		N/A	3,438
Senior Center Staffing		N/A	3,000
In - Home Services		N/A	<u>21,300</u>
			<u>33,915</u>
Special Programs for the Aging - Title III, Part C - Nutrition Services - Congregate Meals	93.045	N/A	43,411
Mobile Meals		N/A	<u>77,818</u>
			<u>121,229</u>
Special Programs for the Aging - Title III, Part C - Nutrition Services Incentive Program - Congregate Meals	93.053	N/A	3,281
Mobile Meals		N/A	<u>54,695</u>
			<u>57,976</u>
Total for Special Program for Aging Cluster			<u>213,120</u>
Total Passed Through Valley Area Agency on Aging			<u>214,155</u>
<u>Passed Through the Michigan Department of Human Services:</u>			
Promoting Safe and Stable Families - Wraparound Services	93.556	WRAP-11-44001	<u>4,742</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, 2012**

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 Michigan Department of Human Services (cont'd):</u>			
Child Support Enforcement - Title IV-D -	93.563		
Friend of the Court - Cooperative Reimbursement		CSFOC10/13-44001	\$ 622,255
Prosecuting Attorney - Cooperative Reimbursement		CSPA10/13-44002	90,442
Federal Incentive Payments		NA	139,094
			<u>851,791</u>
Access and Visitation	93.597	N/A	<u>2,150</u>
Total Passed Through The Michigan Department of Human Services			<u>858,683</u>
<u>Passed Through Michigan Department of Community Health:</u>			
Immunization Cooperative Agreements -	93.268		
Immunization IAP		CPBC FY12	41,613
Vaccine Doses		N/A	205,560
			<u>247,173</u>
ARRA - Prevention and Wellness - Local Tobacco	93.723	CPBC FY 12	<u>5,398</u>
Public Health Emergency Preparedness -	93.069		
Bioterrorism		CPBC FY12	114,847
Bioterrorism - Cities Readiness Initiative		CPBC FY12	20,102
			<u>134,949</u>
State Children Insurance Program -	93.767		
MI - Child		N/A	<u>39,271</u>
Medical Assistance Program Title XIX-	93.778		
Medicaid Outreach		CPBC FY12	20,446
Screening and Annual Project Review		NA	16,239
CSHCS - Medicaid Outreach		CPBC FY12	3,343
CSHCS - Outreach & Advocacy		CPBC FY12	11,888
			<u>51,916</u>
Block Grants for Community Mental Health Services -	93.958		
Expansion of CPSS		11B1MIMCHS	<u>82,090</u>
Maternal and Child Health Services			
Block Grant -	93.994		
CSHCS - Outreach and Advocacy		CPBC FY12	<u>16,224</u>
Total Passed Through Michigan Department of Community Health			<u>577,021</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,649,859</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, 2012**

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	N/A	\$ 22,663
<u>Passed Through Bay County:</u>			
Homeland Security Grant Program -	97.067		
FY 08 Law Enforcement Terrorism Activity		N/A	5,535
FY 08 Homeland Security Grant Program		N/A	2,605
FY 09 Citizen Corp Program		N/A	2,149
FY 09 Law Enforcement Terrorism Activity		N/A	47,521
FY 09 Homeland Security Grant Program		N/A	53,438
FY 10 Homeland Security Grant Program		N/A	11,075
			<u>122,323</u>
<u>Passed Through The Michigan Department of Natural Resources:</u>			
Boating Safety Financial Assistance -	97.012		
Marine Safety		N/A	12,637
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>157,623</u>
Total Federal Awards			<u>\$ 2,362,886</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, 2012**

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, 2012. 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 2012, 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 assets, or cash flows of the County.

NOTE 2 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

The following schedule reconciles the intergovernmental revenues reported in the December 31, 2012 governmental funds basic financial statement to the federal award expenditures of the County reported on the Schedule.

	Major Funds	Non-major Funds	Total
Balance per Financial Statements – Governmental Funds – Intergovernmental revenue	\$ 4,909,231	\$ 4,032,617	\$ 8,941,848
Less: State and Local Revenue	(4,624,785)	(1,954,177)	(6,578,962)
Federal Award Expenditures	<u>\$ 284,446</u>	<u>\$ 2,078,440</u>	<u>\$ 2,362,886</u>

LAPEER COUNTY, MICHIGAN

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE 3 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) AWARD
EXPENDITURES:**

The following is a summary of ARRA Award Expenditures as reported on the Schedule:

CFDA #16.803	ARRA – Edward Byrne Memorial Justice Assistance Program - Grants to States and Territories	\$ 97,619
CFDA #93.723	ARRA – Prevention and Wellness - Local Tobacco	5,398
		<u>\$ 103,017</u>

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, 2012 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>\$ 694,868</u>	<u>\$ 2,090,000</u>
Balance 12/31/12	<u>\$ 416,507</u>	<u>\$ 544,868</u>	<u>\$ 1,692,694</u>
2012 Activity			
Proceeds	\$ -	\$ -	\$ -
Expenditures			
Capital Outlay	-	-	-
Debt Service			
Principal	50,000	30,000	85,000
Interest and Fiscal Charges	11,038	12,216	37,776

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>
ARRA – Edward Byrne Memorial Justice Assistance – Grants to States and Territories	16.803	\$ 85,237
Edward Byrne Memorial Justice Assistance Program – TNU	16.738	47,478

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 as of and for the year ended December 31, 2012, 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 12, 2013. 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 Lapeer 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 Lapeer 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 Lapeer County's internal control. Accordingly, we do not express an opinion on the effectiveness of Lapeer 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Lapeer County'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 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 discussed in the Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness referenced as 2012-01 and another deficiency that we consider to be a significant deficiency referenced as 2012-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lapeer 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*.

Lapeer County's Response to Findings

Lapeer County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Lapeer 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 result of that testing, and not to provide an opinion on the effectiveness of Lapeer 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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stewart Beauvais & Whipple, PC.
Certified Public Accountants

June 12, 2013

**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, 2012. 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, 2012.

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 2012-03 and 2012-04. 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 and 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 2012-03 and 2012-04 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 12, 2013

LAPEER COUNTY, MICHIGAN

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> 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)?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> 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 #16.738/803	JAG Program Cluster
CFDA #'s 93.069	Public Health Emergency Preparedness
CFDA #93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

LAPEER COUNTY, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II – Financial Statement Findings:

The finding 2012-01 is considered to be a material weakness in internal control over financial reporting and 2012-02 is considered to be a significant deficiency. The findings were also reported in the prior year as material weaknesses.

2012-01 Material Adjusting Entries

Condition: Material auditor proposed adjusting entries were proposed including entries to reclassify several trust and agency liability account balances, correct classification of delinquent property tax receivables recorded in the Delinquent Tax fund and to adjust drain assessment receivables in the Drainage District funds and properly reclassify revenues and expenditures of the Revolving Drain Fund. Material entries were also proposed to the Medical Care Facility fund, which has a separate accounting system.

Criteria: Statement on Auditing Standards (“SAS”) 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.

Cause: The County, having limited personnel due to budget cuts, has placed time restraints on the accounting office. 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 material misstatement could occur in the Comprehensive Annual Financial Report (“CAFR”) or the Schedule that would not be prevented or detected by the 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 more timely 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: The County has reviewed the balances in the trust and agency liability account balances. A number of accounts have been corrected and closed. Procedures in the Treasurer’s Office and in several Departments have changed to either eliminate the need for the account at the County level or to enhance the procedures to better track the balances. The County Treasurer is undergoing extensive changes to the delinquent tax receipting and collection procedures which will simplify and more accurately reflect tax collections. The County is also in the process of requesting quotes for a Drain Ledger Program to more accurately track and record revenues and expenditures of the Revolving Drain Fund.

2012-02 Preparation of the Financial Statements in Accordance with Generally Accepted Accounting Principles

Condition: The County has historically relied on its independent external auditors for their expertise and technical skills to prepare and present the CAFR in accordance with generally accepted accounting principles, including the notes to the financial statements 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.

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 CAFR prepared in accordance with generally accepted accounting principles and presentation requirements of the Government Finance Officers Association.

Cause: The County has made the decision that it is more cost effective/efficient to outsource the preparation of its CAFR 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 CAFR 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 County Management is responsible for the CAFR and will increase our involvement and review process.

Section III – Federal Award Program Questioned Costs and Findings:

2012-03

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, 2012, the preliminary schedule obtained from client contained the following errors: (1) reporting a program's CFDA incorrectly, (2) reporting a non-federal program as federal for approximately \$110,000. Furthermore, the schedule obtained from the Health Department, who prepares their own federal listing, contained numerous errors between the state and federal distinction for several federal programs.

Questioned Costs: None.

Cause: The County, having limited personnel due to budget cuts, has placed time restraints on the accounting office 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.

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 (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 accounting office will provide all departments with a form presenting the required information to be provided for the year. The accounting department will request supporting documentation for grant monies and identification numbers, along with general ledger revenue and expenditure account numbers.

2012-04

Program - ARRA Edward Byrne Memorial JAG - CFDA #16.803
U.S. Department of Justice Passed Through the Michigan Department of State Police
Pass-through grantor's number – 2009-SU-B9-0017

Program - Edward Byrne Memorial Justice Assistance Program TNU - CFDA #16.738
U.S. Department of Justice Passed Through the Michigan Department of State Police
Pass-through grantor's number - 2011-DJ-BX-2240

Type: Significant deficiency in internal control over the major program and noncompliance with the subrecipient monitoring compliance requirement.

Criteria: OMB Circular A-102 requires nonfederal entities receiving Federal Awards to establish and maintain internal controls designed to ensure reasonable compliance with laws, regulations and program compliance requirements. Per the Circular, each pass-through entity shall: A) Provide each subrecipient requirements that govern the use of such awards; B) Monitor the subrecipients use of Federal awards through site visits, limited scope audits, or other means; C) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, if applicable.

Per the grant agreements, the contractor must ensure that each of its subrecipients comply with the Single Audit Act requirements and must issue management decisions on audit findings of their subrecipients as required by OMB Circular A-133. The contractor is responsible for reviewing all single audit adverse findings and ensuring that corrective actions are implemented. The contractor must ensure subrecipients forward all single audits covering grant funds administered through the Department to the Contractor. The Contractor must also develop a subrecipient monitoring plan to provide reasonable assurance that the subrecipients are administering federal awards in compliance with laws, regulations, provisions of contracts and the performance goals of the award.

Condition: It was discovered during fieldwork that the County did not provide each subrecipient the program names (and identifying numbers) from which assistance is derived. Upon being made aware of the situation by the auditors, the required aforementioned information was subsequently provided to all subrecipients of the program.

Questioned Costs: None.

Cause: The County's subrecipient monitoring process does not contain suitable internal controls designed to ensure that all subrecipients are sent the aforementioned program information (names, identifying numbers, etc.) to include in their Single Audits, if applicable.

Effect: Subrecipients were not provided program names, CFDA numbers, or amount of funding, on a timely basis.

Recommendation: We recommend that the County develop policies and procedures over subrecipient monitoring to comply with federal requirements.

View of responsible officials and corrective action: The County will establish policies and procedures to fulfill our monitoring responsibilities.

LAPEER COUNTY, MICHIGAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

The following responses were provided by John Biscoe, Administrator/Controller of Lapeer County for the findings reported in the 2011 single audit since they were not fully implemented in 2012.

11-01

The recording of material journal entries prior to year-end closing and the preparation of the Comprehensive Annual Financial Report.

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.

11-02

Review of Comprehensive Annual Financial Report.

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 2013. 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.

11-03

Bank Reconciliations for Common Checking Account.

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

11-04

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. 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 2013.

11-05

Subrecipient Monitoring Process

During 2012 the County Finance Department implemented procedures to determine whether subrecipients are subject to the Single Audit Act. The single audits of subrecipients will be reviewed and follow-up will be made on any noncompliance or internal control matters related to any pass-through grants. For subrecipients not subject to the single audit, other methods will be implemented to fulfill our monitoring responsibilities. These procedures will include requesting from subrecipients written procedures over significant compliance requirements and documentation to support grant costs charged to pass-through grants.