Stewart,
Beauvais
& Whipple P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

AUDIT COMMUNICATION LETTER

June 23, 2009

To the Board of Commissioners
of Lapeer County, Michigan
Lapeer, Michigan

We have audited the financial statements of the Lapeer County, Michigan for the year ended December 31, 2008, and have issued our report thereon dated June 23, 2009. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we consider Lapeer County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Lapeer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Lapeer County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on Lapeer County's' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Lapeer County's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our preliminary communications, except for a delay in finalizing the drafting of the financial statements. We believe that the delays were predominately the result of the limited number of staff in the County finance department and additional requirement of clients under new auditing standards.

1979 Holland Avenue, Port Huron, Michigan 48060 (810) 984-3829 Fax (810) 984-8943

Significant Audit Issues

Qualitative Aspects of Accounting Practices

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Lapeer County are described in Note 1 to the financial statements. We noted no transactions entered into by Lapeer County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, of transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was depreciation.

Management's estimate for this item is based on estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

> The disclosure of the custodial credit risk of deposits in Note 3 of the financial statements indicates the Lapeer County holds $13,304,236 with a corresponding bank balance of $15,853,199 of which $2,057,463 is insured with the remaining $13,795,736 is uninsured/uncollateralized, is particularly sensitive to the financial statement users given the risk of a bank failure, the Lapeer County deposits may not be returned.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Financial Reporting Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material adjustments detected as a result of audit procedures were recorded by management (we also proposed and management recorded a number of immaterial audit adjustments and closing entries):

- To adjust E-911 Fund revenues and receivables
- To record Tax revenues, Tax receivables/Deferrals and Delinquent Tax Revolving Fund receivables
- To adjust Court Equity Revenues
- To adjust Friend of The Court federal revenues
- To record Homeland Security federal grants
- To reclassify Insurance proceeds and balance Inmate Cash account
- To adjust Prepaid account (insurance)
- To record Accrued Claim Liabilities
- To balance Drain funds for special assessments and payables

Assistance with GASB No. 34 Presentation

As a result of our assistance with GASB No. 34 presentation, we proposed several entries to the December 31, 2008 account balances to reflect the difference between the Governmental Fund and the Government-Wide financial statements. These adjustments are described on Pages 19 and 22 of the 2008 CAFR.

Statement on Auditing Standards No. 112

The Lapeer County continues to be audited under the provisions of Statement on Auditing Standards No. 112 "Communicating Internal Control Related Matters Identified in an Audit". Under SAS 112 internal control over financial reporting specifies that the entity should draft or review the financial statement including note disclosures and supplementary information to assure that they are accurate and reported in accordance with Generally Accepted Accounting Principles.

If a governmental organization relies on our firm to present the financial statements in accordance with generally accepted accounting principles, we are required to report that there is a significant deficiency in internal control. We, again, fulfilled this responsibility in your internal control letter for the year ended December 31, 2008.

A substantial portion of our clients are receiving this comment, and per discussion with other CPA firms, a substantial number of their clients are also receiving the comment. This is the result of it being the practice in the past to rely on the auditor since the annual financial report is prepared once a year and we stay current on generally accepted accounting principles. We recommend to management that the Agency evaluate the cost and efficiency of expanding internal control over financial reporting to include presentation under GAAP.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 23, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Issues

In addition to the Report on Internal Control we noted a few other items that although are not considered significant deficiencies could improve controls, the operational efficiency and/or compliance with laws and regulations. These items are discussed in Attachment A.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Commissioners and management of Lapeer County and is not intended and should not be used by anyone other than these specified parties.

Stewart, Beauvais & Whipple

Certified Public Accountants

ATTACHMENT A

The following items that we discussed with management are not considered significant deficiencies, however, are items that could improve controls, the operational efficiency of the accounting department and/or compliance with laws and regulations:

Cash Receipting

The County has a decentralized cash receipting function where each major department of the County has its own cash receipting procedures. We noted during our audit procedures that deposits with treasurer's department could improve the controls over cash collection as follows:

E-911 department does not usually issue a receipt for all receipts received.

Certain deposits lacked supporting documents for verification of cash received by other departments such as register taps or tally total receipts.

Sheriff's department does not have proper procedures to reconcile inmate funds to the bank statement.

Soil Erosion and Sediment department lacks segregation of duties where the same person receives cash, issues receipts and prepares deposits.

As a result of conditions described in regards to the departments' receipting procedures, the County is at risk that errors and misstatements could occur that would not be prevented or detected.

We recommend that you continue your process of increasing controls over receipting by the various departments at the County.

Time Sheets and Documentations

During our tests of payroll function, we noted that not all time sheets are signed by employees particularly for Sheriff Department and E-911 employees. Signatures are considered a significant control for time verification. In absence of such verification, the County is at risk.

We recommend that all time sheet need to be signed by employees and supervisor.

Formal Accounting Policies and Procedures

To help eliminate misunderstanding and to increase internal accounting controls, certain accounting policies should be written and/or updated and be formally approved by the Board. We believe these policies and procedures are important.

We recommend that the following policies be documented in writing or updated:

- Electronic Fund Transfer (EFT)
- Investment Policy
- Personnel Use of County owned vehicles

Journal Entries

Currently the County has one person who is significantly involved in preparing, reviewing and posting journal entries to the General Ledger. In absence of control over journal entries, there is likelihood that mistakes and errors may occur and not be detected.

We recommend that a prudent individual differ from preparer should reviews and approves all journal entries and assures that there are proper supporting documents attached.

Department of Human Services:

General Ledger Account Balances

During the audit of the Department of Human Services, we noted that the general ledger continues to be recorded inconsistently with either the cash or modified accrual basis of accounting. This resulted in the recording of receivables and deferrals so that revenues did not equal expenditures for reimbursement grants.

We understand that the County Finance Department is becoming more involved with the DHS general ledger and the processing of the DHS County related activity.

We recommend that the procedures for posting to accounts be reviewed and technical assistance provided to the DHS department to improve the reporting process.

Health Department:

General Ledger Account Balances for Health Department

We noted that the account balances the Health Department general ledger account balances did not always agree to Lapeer County General Ledger account balances maintained as a control of the Health Department.

We recommend that procedures be implemented to reconcile Health Department general ledger balances to the County general ledger balances.

Drain Commissioner:

General Ledger Account Balance for Drainage District's Funds

During the audit of the special assessments receivables for the Drainage Districts we noted an inconsistency in the recording of collections in the appropriate funds. In most instances even if the receivable was recorded in a Debt Service Fund the collection was reported in the 801 Fund.

This made it difficult to determine the correct special assessment receivable balance per the general ledger to compare to detail special assessment listings.

We recommend that the special assessment receivable balances per the general ledger be reconciled monthly to the detail. This will be facilitated by recording collections in the appropriate fund.

COMPLIANCE ISSUES

Budget Amendments

As indicated in the Notes to Financial Statements, the County of Lapeer has not complied with certain provisions of Public Act 621 of 1978, as amended. The Uniform Budgeting and Accounting Act. Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Act requires the Board of Commissioners to make budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

During the year ended December 31, 2008, the County (primary government) incurred expenditures in excess of appropriations for three (3) activities of the General Fund and had excess expenditures over appropriations in the eleven (11) budgeted special revenue funds which includes the Revenue Sharing Reserve Fund that did not have a budget which is also required by Public Act 621 of 1978 as amended.

We recommend that the current monitoring process of comparing actual expenditures to budget be enhanced.

Negative Cash

The use of a common checking account allows for the County to issue checks on a fund when the amount is not available in the funds portion of the common checking account. This occurs because the cash of the fund is in another cash or investment account.

The transaction results in negative cash, which is not a bank overdraft because cash in total is positive. However, the Michigan Department of Treasury considers this to be interfund borrowing, which may or may not be legal based on the fund type.

In order to not report negative cash on the various funds' balance sheets in the CAFR, we propose an entry to report interfund receivable/payables that we believe meet the Michigan Department of Treasury legal requirements. The entry for December 31, 2008, even though considerably less than for December 31, 2007, was still $1,418,663.

We recommend that the County monitor these negative balances more closely so that large entries are not required to be recorded at year-end.

To assist in the monitoring, Lapeer County should implement procedures at the department level to provide a periodic report with explanations of variances with support data.

Fiduciary - Trust Funds

The County currently maintains two trust funds in the County general ledger (chart of accounts). One records the activity of charging departments and funds for pension and remittance of the required contribution to MERS. The other is maintained to account for charging departments and funds for postemployment health care and investing those funds to provide defined benefit health care to retired employees of the County.

We recommend that the County have determined if these funds are legal trusts so it can be documented that the cash and investments that are maintained are not available to the County or creditors. If they are not, it would be more appropriate to report them as internal service funds.