

LAPEER COUNTY, MICHIGAN
SUPPLEMENTARY INFORMATION TO
FINANCIAL STATEMENTS
(FEDERAL AWARDS)
FOR THE YEAR ENDED DECEMBER 31, 2016

LAPEER COUNTY, MICHIGAN

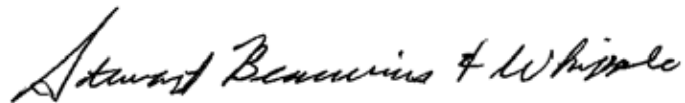
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**INDEPENDENT AUDITOR'S REPORT
ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

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, 2016 and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated June 19, 2017, 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Certified Public Accountants

June 19, 2017

LAPEER COUNTY, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures	Expenditures Passed to Subrecipients
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>				
<u>Passed Through the Michigan Department of Health and Human Services:</u>				
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) -	10.557			
Resident Services		IW100342	\$ 331,714	\$ - *
Breastfeeding		IW100342	8,610	- *
Breastfeeding		W500342	17,221	- *
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>357,545</u>	<u>-</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 -	14.228			
Housing Rehabilitation		MSC 2015-0751-HOA	8,660	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			<u>8,660</u>	<u>-</u>
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
<u>Direct program:</u>				
Bulletproof Vest Partnership Program	16.607	N/A	1,237	-
<u>Passed Through the Michigan Department of State Police:</u>				
Edward Byrne Memorial Justice Assistance Prog.	16.738	2014-MU-BX-1022	32,000	25,048
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>33,237</u>	<u>25,048</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY:</u>				
<u>Passed Through The Michigan Department of Environmental Quality:</u>				
Drinking Water State Revolving Fund Cluster - Capitalization Grants for Drinking Water State Revolving Funds -	66.468			
Standard / Operator Assistance		FS975487-14	1,630	- *
Capacity Development		FS975487-13	450	- *
Source Water Assessment		FS975487-14	700	- *
Revised Total Coliform Rule		FS975487-14	4,024	- *
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>6,804</u>	<u>-</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, 2016**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures	Expenditures Passed to Expenditures
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>				
<u>Passed Through the Valley Area Agency on Aging:</u>				
Aging Cluster -				
Special Programs for the Aging-Title III, Part B -				
Grants for Supp. Services and Senior Centers -	93.044			
Case Coordination and Support		N/A	\$ 3,487	\$ - *
Care Management		N/A	517	- *
Homemaker, P/C		N/A	46,880	- *
			<u>50,884</u>	<u>-</u>
Special Programs for the Aging-Title III, Part C -				
Nutrition Services -	93.045			
Congregate Meals		N/A	48,562	- *
Home Delivered Meals		N/A	91,180	- *
			<u>139,742</u>	<u>-</u>
Nutrition Services Incentive Program -				
Congregate Meals	93.053	N/A	10,445	- *
Home Delivered Meals		N/A	57,543	- *
			<u>67,988</u>	<u>-</u>
Total Aging Cluster			<u>258,614</u>	<u>-</u>
<u>Passed through the Michigan Department of Health and Human Services:</u>				
Child Support Enforcement - Title IV-D -	93.563			
Friend of the Court - Cooperative Reimbursement		CSFOC13-44001	485,968	-
Friend of the Court - Cooperative Reimbursement		CSFOC17-44001	165,457	-
Prosecuting Attorney - Cooperative Reimbursement		CSPA13-44002	79,838	-
Prosecuting Attorney - Cooperative Reimbursement		CSPA17-44002	25,970	-
Federal Incentive Payments		NA	156,509	-
			<u>913,742</u>	<u>-</u>
<u>Passed through the Michigan Supreme Court State Court Administrative Office:</u>				
Grants to States for Access and Visitation Programs	93.597	N/A	<u>3,810</u>	<u>-</u>
<u>Passed through the Michigan Department of Health and Human Services:</u>				
Immunization Cooperative Agreements -	93.268			
Immunization Action Plan (IAP)		H23 CCH522556	13,454	- *
Vaccine Doses		N/A	156,174	- *
			<u>169,628</u>	<u>-</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, 2016**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures	Expenditures Passed To Subrecipients
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (cont'd):</u>				
<u>Passed through the Michigan Department of Health and Human Services (cont'd):</u>				
Public Health Emergency Preparedness -	93.069			
Bioterrorism		NU90TP000528	\$ 121,501	\$ - *
Bioterrorism - Cities Readiness Initiative		NU90TP000528	23,522	- *
Bioterrorism - Ebola Virus Disease Phase II		NU90TP000528	9	- *
			<u>145,032</u>	<u>-</u>
Medicaid Cluster -				
Medical Assistance Program-	93.778			
Medicaid Outreach		05 U05M15ADM	29,883	- *
CSHCS - Medicaid Outreach		05 U05M15ADM	1,590	- *
CSHCS - Outreach & Advocacy		05 U05M15ADM	20,000	- *
Omnibus Budget Reconciliation Act		NA	12,445	- *
Total Medicaid Cluster			<u>63,918</u>	<u>-</u>
Prevention and Public Health Funds				
Capacity Building Assistance to Strengthen				
Public Health Immunization Infrastructure				
and Performance Financed in Part by				
Prevention and Public Health Funds -	93.539			
Immunization Action Plan (IAP)		H23 IP000752	<u>34,090</u>	<u>- *</u>
Maternal and Child Health Services Block Grant-	93.994			
Other - MCH		B1MIMCHS	<u>36,921</u>	<u>- *</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,625,755</u>	<u>-</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
<u>Passed Through The Michigan Department of State Police:</u>				
Emergency Management Performance Grants -	97.042			
Grant Program Year 2016		EMW-2016-EP-00001	<u>24,536</u>	<u>-</u>
<u>Passed through Iosco County:</u>				
Homeland Security Grant Program -	97.067			
Grant Program Year 2014		EMW-2014-SS-00059	18,211	-
Grant Program Year 2015		EMW-2015-SS-00033	15,955	-
			<u>34,166</u>	<u>-</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, 2016**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures	Expenditures Passed To Subrecipients
U.S. DEPARTMENT OF HOMELAND SECURITY (cont'd):				
<u>Passed Through The Michigan Department of Natural Resources:</u>				
Boating Safety Financial Assistance -	97.012			
Marine Safety		N/A	\$ 10,787	\$ -
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			69,489	-
Total Federal Awards			\$ 2,101,490	\$ 25,048

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, 2016

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, 2016. 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). In addition, expenditures reported on the Schedule are recognized following the cost principles contained in Subpart E of the Uniform Guidance or 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. The cost principles followed for expenditures presented on this Schedule are based on whether incremental funding of existing federal awards was provided after December 26, 2014 and for all new federal awards expended after this date (the effective date of The Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The County passes a certain amount of these federal awards to other local governments and agencies (subrecipients) who provide the actual program services. These awards passed through to subrecipients are recognized as expenditures by the County in the period the program services are provided.

The County has elected not to use the 10% de Minimis cost rate allowed under the Uniform Guidance.

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 and, if necessary, audits in accordance with the Uniform Guidance are issued. For 2016, audits in accordance with the Uniform Guidance 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 net 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 Health and Human Services (pass-through grantor).

**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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 19, 2017.

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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 2016-001, 2016-002, 2016-003, 2016-005, and 2016-006 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2016-004 to be a significant deficiency.

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*.

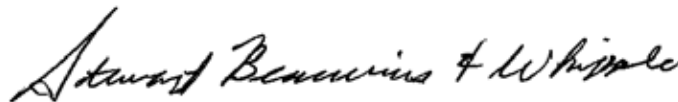
We noted certain matters that we reported to management in a separate letter dated June 19, 2017.

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.

A handwritten signature in cursive script, reading "Stewart Beaumont & Whipple".

Certified Public Accountants

June 19, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Commissioners
of Lapeer County
Lapeer, Michigan

Report on Compliance for Each Major Federal Program

We have audited Lapeer County, Michigan's (the "County") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2016. The County's major federal program is 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. The Lapeer County Road Commission and Lapeer County Land Bank Authority were audited under *Government Auditing Standards* separately by us and an audit in accordance with the Uniform Guidance was not required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on the 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 the major federal program for the year ended December 31, 2016.

Report on Internal Control Over Compliance

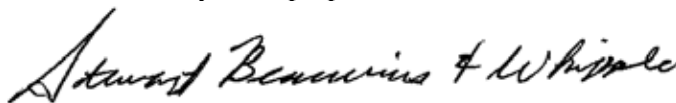
Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We noted certain matters that we reported to management in a separate letter dated June 19, 2017.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants

June 19, 2017

LAPEER COUNTY, MICHIGAN

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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?

 x yes no

Significant deficiency(ies) identified not
considered to be material weaknesses?

 x yes none reported

Noncompliance material to financial
statements noted?

 yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 yes x no

Significant deficiency(ies) identified not
considered to be material weaknesses?

 yes x none reported

Type of auditor’s report issued on compliance
for major programs:

Unmodified

Any audit findings disclosed that are required to
be reported in accordance with 2 CFR section
200.516 (a) of the Uniform Guidance?

 yes x no

Identification of Major Program:

CFDA Number

Name of Federal Program or Cluster

CFDA #93.563

Child Support Enforcement

Dollar threshold used to distinguish
between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 yes x no

LAPEER COUNTY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2016

Section II – Financial Statement Findings:

2016-001: 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 reviewed and approved 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 misstatements necessary to properly report year-end balances.

Effect: As a result of this condition the following entries were proposed:

- To record certain capital asset addition/disposal transactions and correct recording of gain/loss on disposals.
- To reverse prior-year accounts payable in one fund.
- To correct beginning fund balances in one fund.
- To reclassify MMRMA distribution to offset expenses.

Drain Funds:

- To reclassify expenditures into proper funds.
- To reclassify advance into proper account.
- To reclassify land purchase.

Medical Care Facility:

- To correct contra receivable account balance.
- To adjust workers’ compensation claims liability.
- To record retainer payable on construction project.

Recommendation: Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustments. In addition, the County Finance Department should evaluate the process in current use to review the work generated from the year-end closing process prior to formally closing the “books” for the annual financial statement audit.

View of responsible officials and planned corrective action: Management agrees with the finding. See corrective action plan.

LAPEER COUNTY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2016

2016-002: Bank reconciliation differences should be corrected timely

Type: Material weakness in internal controls over financial reporting.

Criteria: A required element of internal control over cash is to require a monthly bank reconciliation to be performed on all cash accounts within an entity to determine that the ending bank balance is reconciled to the General Ledger balance and all reconciling items are properly accounted for and recorded.

Condition: As of December 31, 2016, the December bank reconciliation for the County bank accounts indicate an unreconciled difference of approximately \$47,000. Unreconciled differences that appear immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation, if the items were apparent. Also, if small differences are not reconciled on a monthly basis, over time, they can accumulate to involve a significant number of transactions and amounts that will be difficult to identify and adjust.

Context: We noted during our evaluation of the monthly bank reconciliations, there were immaterial differences identified between the bank balance and the General Ledger for each month. It was also noted that none of reconciliations indicated the same unreconciled difference to demonstrate progress in the reconciling process.

Cause: The County has not implemented a control over cash in which the monthly bank reconciliation process is required to have no unreconciled differences.

Effect: The failure to implement the aforementioned internal control exposes the County to risk of not identifying unrecorded or improperly recorded transactions and potential fraudulent financial reporting or misappropriation of assets.

Recommendation: We recommend that the internal control in this area require all bank accounts to be reconciled monthly with no unreconciled differences. In addition, the bank reconciliation process should be evaluated to ensure that the methodology currently under use is comprehensive, appropriate, and efficient to provide for timely identification of differences and proper accounting treatment.

View of responsible officials and planned corrective action: Management agrees with the finding. See corrective action plan.

2016-003: Segregation of Duties at the Medical Care Facility should be evaluated

Type: Material weakness in internal controls over financial reporting.

Criteria: Segregation of duties is a basic building block of sustainable risk management and internal controls of an entity. Proper segregation should be evaluated for all the key processes and accounting areas of an entity. One element of consideration of an organization when evaluating key processes and accounting areas should be to segregate to the extent possible the duties involving access to the General Ledger and subsidiary records, custody over assets, and authorization privileges.

Condition: A certain key employee of the organization has access to certain assets, including cash. The duties of this individual include making the deposits with the County Treasurer's office, reconciling the bank accounts, as well as making adjusting journal entries into the General Ledger.

LAPEER COUNTY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2016

There appears to be no review of the entries or supporting documentation (e.g. bank reconciliation) by someone independent and with sufficient knowledge and understanding to identify misstatements and errors, which is a key element of a typical control environment of an organization of this size. It is our understanding the only mitigating control is the Administrator's monthly review of the Facility's financial reports generated off the system.

Context: The potential exists for misstatements and errors to occur due to lack of segregation of duties involving the processes and accounting areas involving this key employee.

Cause: The Facility has not properly implemented internal control elements relating to segregation of duties with regard to the processes and accounting areas involving this key employee.

Effect: The failure to implement the aforementioned internal controls exposes the Facility to increased risk of misstatement and errors, including potential fraudulent financial reporting or misappropriation of assets.

Recommendation: We recommend evaluating the current level of segregation involved with the processes and accounting areas of this key employee to determine whether some of the responsibilities currently performed should be shared with other personnel within the organization to improve overall internal control and reduce the likelihood of misstatements and errors.

View of responsible officials and planned corrective action: Management agrees with the finding. See corrective action plan.

2016-004: Preparation of the Financial Statements in Accordance with Generally Accepted Accounting Principles

Type: Significant deficiency in internal controls over financial reporting.

Criteria: Accounting standards specify 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 the government-wide presentation required by GASB Statement No. 34, as part of the annual audit process. Management then reviews the report once it has been prepared but doesn't possess the expertise on-staff to ensure the financial statements and note disclosures are presented in accordance with generally accepted accounting principles.

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.

LAPEER COUNTY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2016

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 process.

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: Management agrees with the finding. See corrective action plan.

2016-005: Monitor transactions posted to County drain funds.

Type: Material weakness in internal controls over financial reporting.

Criteria: The Michigan Department of Treasury has created and published a State Uniform Chart of Accounts providing for the establishment and use of various drain funds to provide for the proper classification and reporting of County Drainage Districts' accounting transactions.

Condition: The Drain Funds of the County are not maintained in accordance with the fund structure provided and certain drainage district transactions have not been accounted for in accordance with the State Uniform Chart of Accounts. It appears the accounting staff involved with drainage district accounting processes have not been provided sufficient training to understand proper accounting and classification of transactions as described in the Uniform Chart of Accounts.

Context: The following errors have been identified and corrected through the audit process: expense transactions were improperly classified (i.e., incorrect line items within fund), expense transactions were not recorded in the proper drain fund, accounts receivable accounts in the General Ledger are not being used as a control account and proper cut-off of accounts receivable balances have not been determined, advances from other funds were not recorded in the proper drain fund, due to/due from accounts are not being cleared out on a timely basis, and transfers are improperly being used as a vehicle to correct the classification of transactions between drain funds. These errors have been identified in the annual audit of the County financial statements over the past several years.

Cause: The Drain Commissioner and Finance Departments' accounting staff have not received adequate training on the use of the Uniform Chart of Accounts and other basic accounting functions relative to drain funds to ensure the proper accounting treatment and classification of drainage district transactions.

Effect: The failure to implement internal controls in this area, including the use and understanding of the Uniform Chart of Accounts, have resulted in errors and misstatements to the drain funds, which could create risk of such items not being detected.

Recommendation: We recommend additional training of staff involved with the accounting of the drainage districts. The training should involve certain basic accounting training and incorporate the proper use of the Uniform Chart of Accounts.

View of responsible officials and planned corrective action: Management agrees with the finding. See corrective action plan.

LAPEER COUNTY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2016

2016-006: Liabilities maintained in agency accounts should be reconciled to subsidiary records.

Type: Material weakness 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 appear to have not been reconciled to the General Ledger for the entire fiscal year.

Cause: The County's procedures for the reconciling/monitoring of the agency accounts to ensure the accuracy of subsidiary records is not being consistently followed.

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, are held on behalf of other entities or individuals and are 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 detailed subsidiary record. 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 suggest the County refer back to the training materials provided in 2016 and consider holding another in-house training to reemphasize the County's procedure to ensure all agency accounts are reconciled to the General Ledger on a monthly basis. A monitoring process needs to be established to identify issues and provide additional training assistance to departments to ensure compliance.

View of responsible officials and corrective action: Management agrees with the finding. See corrective action.

Section III – Federal Award Program Findings and Questioned Costs:

There were no federal award program findings or questioned costs.

LAPEER COUNTY, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2016

The responses provided below for findings reported in the 2015 single audit identified as 2015-001, 2015-003, and 2015-004 were provided by John Biscoe, Controller/Administrator of Lapeer County and by Tony Roeske, Controller of the Lapeer County Medical Care Facility for finding 2015-002.

Finding 2015-001:

2015-001: Material adjusting entries were proposed to correct the County's General Ledger to properly reflect the appropriate balances in accordance with GAAP.

This finding is repeated in the current year as finding 2016-001.

Finding has not been corrected.

Reason for reoccurrence: This has been a finding we have received for several years. The County Finance Department under the direction of Craig Horton, Chief Financial Officer, continues to strive to record all adjustments required to present our financial statements in accordance with generally accepted accounting principles (GAAP). The Finance Department is staffed with only two full-time accountants and must rely on the communication of the various department heads and elected officials to assist with the year-end closing process.

Planned corrective action: The County is evaluating the process in current use to review the work generated from the year-end closing process prior to formally closing the "books" for the annual financial statement audit. With the addition of accounting staff in the Finance Department in 2016, additional reviews will be implemented, additional training will be offered to Drain accounting personnel, and the Controller will continue to discuss the need for additional accounting software in the Drain Office.

Finding 2015-002:

2015-002: An inadequate segregation of duties at the Medical Care Facility exists due to a key individual performing duties involving access to the General Ledger, custody of assets and certain authorization permissions. In addition, manual journal entries prepared by this individual are currently not reviewed by anyone else. The only mitigating control currently in place appears to be the review of the monthly financial reports generated off the system by the Facility Administrator.

This finding is repeated in the current year as finding 2016-003.

Finding has not been corrected.

Reason for reoccurrence: No action was taken during the time period from issuance of the finding to December 31, 2016.

Planned corrective action: The Controller will no longer be able to sign checks as of July 31, 2017. The Controller will continue to complete the bank reconciliations. The Facility Administrator will review the bank statements and bank reconciliations for all facility accounts. The Accounts Payable Clerk will take the deposits to the County starting July 31, 2017. The Office Supervisor will act as backup to the Accounts Payable Clerk.

Once the General Ledger is closed for the previous month, the Facility Administrator will log into ECS each month and run the journal entry report and review it. The Facility Administrator will initial a log sheet and/or document in ECS that the task has been completed.

LAPEER COUNTY, MICHIGAN

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding 2015-003:

2015-003: The County currently does not possess the in-house capability to evaluate whether the financial statement presentation and disclosure is in accordance with GAAP.

This finding is repeated in the current year as finding 2016-004.

Reason for reoccurrence: The County is required to prepare financial statements in accordance with 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.

Planned corrective action: None required at this time. The Controller/Administrator still feels this is the best utilization of limited County resources.

Finding 2015-004:

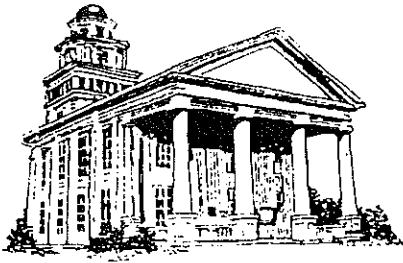
2015-004: Reconciliation of the Agency Funds liability accounts in the General Ledger to subsidiary records is not done on a regular basis.

This finding has been repeated as finding 2016-006.

Finding has only been partially corrected.

Reason for reoccurrence: Additional time was needed to fully implement the corrective action plan established in 2016.

Planned corrective action: The Board of Commissioners allowed the Finance Department to fill a vacant position in the Accounting Division. This position was assigned and has been working directly with the departments with agency funds to balance, reconcile, and maintain each of these accounts. Several of these accounts have been reconciled with a listing of all outstanding balances and all parties continue to work on the remaining historical balances.



MICHIGAN'S OLDEST COURTHOUSE

***Lapeer County
Administration Office***

255 Clay Street
Lapeer, Michigan 48446

phone 810 area code
667-0366
667-0369 FAX
www.county.lapeer.org

June 19, 2017

County responses for "Schedule of Findings and Questioned Costs" for the year ending December 31, 2016.

Section II – Financial Statement Findings

2016-001 Material Adjusting Entries

County Response:

The County is evaluating the process in current use to review the work generated from the year-end closing process prior to formally closing the "books" from the annual financial statement audit. With the addition of accounting staff in the Finance Department in 2016 additional reviews will be implemented, additional training will be offered to Drain accounting personnel, and the Controller will continue to discuss the need for additional accounting software in the Drain Office.

2016-002 Bank Reconciliation difference should be corrected timely

County Response:

The County has meet with the financial software vendor and is in the process of implanting enhanced software that will assist in the bank reconciliation process. The additional detail provided will make reconciling the various types of revenue and their timing difference easier and more accurate.

2016-004 Preparation of the Financial Statements in Accordance with Generally Accepted Accounting Principles

County Response:

The County continues the policy to outsource the preparation of its Comprehensive Annual Financial Reports due to cost effectiveness and efficiencies.

2016-005 Monitor transactions posted to County drain funds

County Response:

The Controller will continue to discuss the need for additional accounting software in the Drain Office, and offer additional training to the Drain accounting staff.

2016-006 Liabilities maintained in agency accounts should be reconciled to subsidiary records
County Response:

The County continues to make improvements in this area. The Finance Department staff works diligently with the various departments that have stewardship over the trust and agency funds. Training has been offered and can be offered in the future to assist the account clerks hired into the statutorily elected offices, that lack the account clerk skills to maintain these accounts.

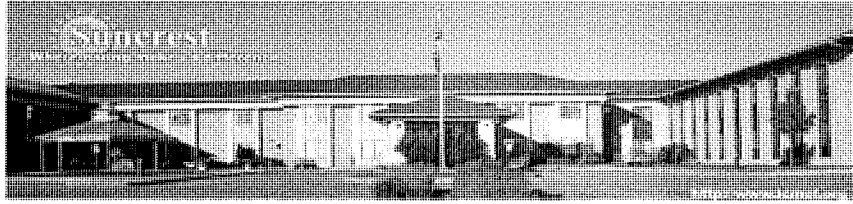
Sincerely,

A handwritten signature in black ink, appearing to read "John Biscoe". The signature is fluid and cursive, with a large initial "J" and a stylized "B".

John Biscoe

County Controller/Administrator

**HUMAN SERVICES
BOARD**
CHAIRPERSON
Mary Sue Weber
VICE-CHAIRMAN
Dave Taylor
MEMBER
Deborah Bastien



ADMINISTRATOR
Gary L. Easton, M.A., N.H.A.
DIRECTOR OF NURSING
Douglas Campbell, R.N., B.S.N., N.H.A.
MEDICAL DIRECTOR
Charles Franczowski, D.O.
ASSOCIATE
Rita Lang, D.O.

Lapeer County Medical Care Facility
1455 Suncrest Dr., Lapeer, MI 48446
810-664-8571 Fax: 810-664-1677
<http://www.lcmcf.org>

June 26, 2017

Medical Care Facility responses to "Schedule of Findings and Questioned Costs" for the year ending December 31, 2016.

Section II – Financial Statement Findings

2016-001 Material Adjusting Entries

Medical Care Facility Response:

Contra Receivable account: The office manager in coordination with the billing clerk's will track the accounts throughout the year to remove the appropriate accounts before year end. As the accounts are paid a list will be given to the controller to journal entry them to the correct account. Before or just after year end the Administrator, Controller and Office Supervisor will meet to discuss possible accounts to be placed in the contra account or removed from the account.

Workers Compensation Claims Liability: The Safety committee will continue to review quarterly at the Safety meeting and any adjustments noted will be communicated to the Administrator and he will notify the Controller to make adjustments to the accrued Workers compensation account.

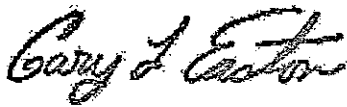
Additional Accruals (Accounts Payable and retainage payable): The office supervisor will educate the staff on the importance of posting revenue and expense to the correct posting periods. The accounts payable clerk will continue to monitor the invoices to be sure they are applied to the correct posting period. Invoice dates will be examined to determine the correct posting month in to the general ledger. The cashiers/receptionists will monitor the incoming cash, checks and electronic admittance advices to apply postings to the correct period. Both the Accounts Payable and Cash Receipts Clerks will notify the Office Supervisor if they are unsure of the correct posting period. The Controller and Office Supervisor will continue to review the accounts payable and cash receipts posting before and after year end. And notify the Accounts Payable and Cash Receipts Clerks of any incorrect posted entries.

2016-003 Segregation of duties at the Medical Care Facility

Medical Care Facility Response:

The Controller will no longer be able to sign checks as of July 31, 2017. The Controller will continue to complete the bank reconciliations. The Administrator will review the bank statements and bank reconciliations for all facility accounts. The accounts Payable Clerk will take the deposits to the County Starting July 31, 2017. The Office Supervisor will act as a back up to the Accounts Payable Clerk.

Once the general ledger is closed for the previous month the administrator will log into ECS each month and run the journal entry report and review it. The Administrator will initial a log sheet and/or document in ECS that the task has been completed.



Gary Easton
Administrator