

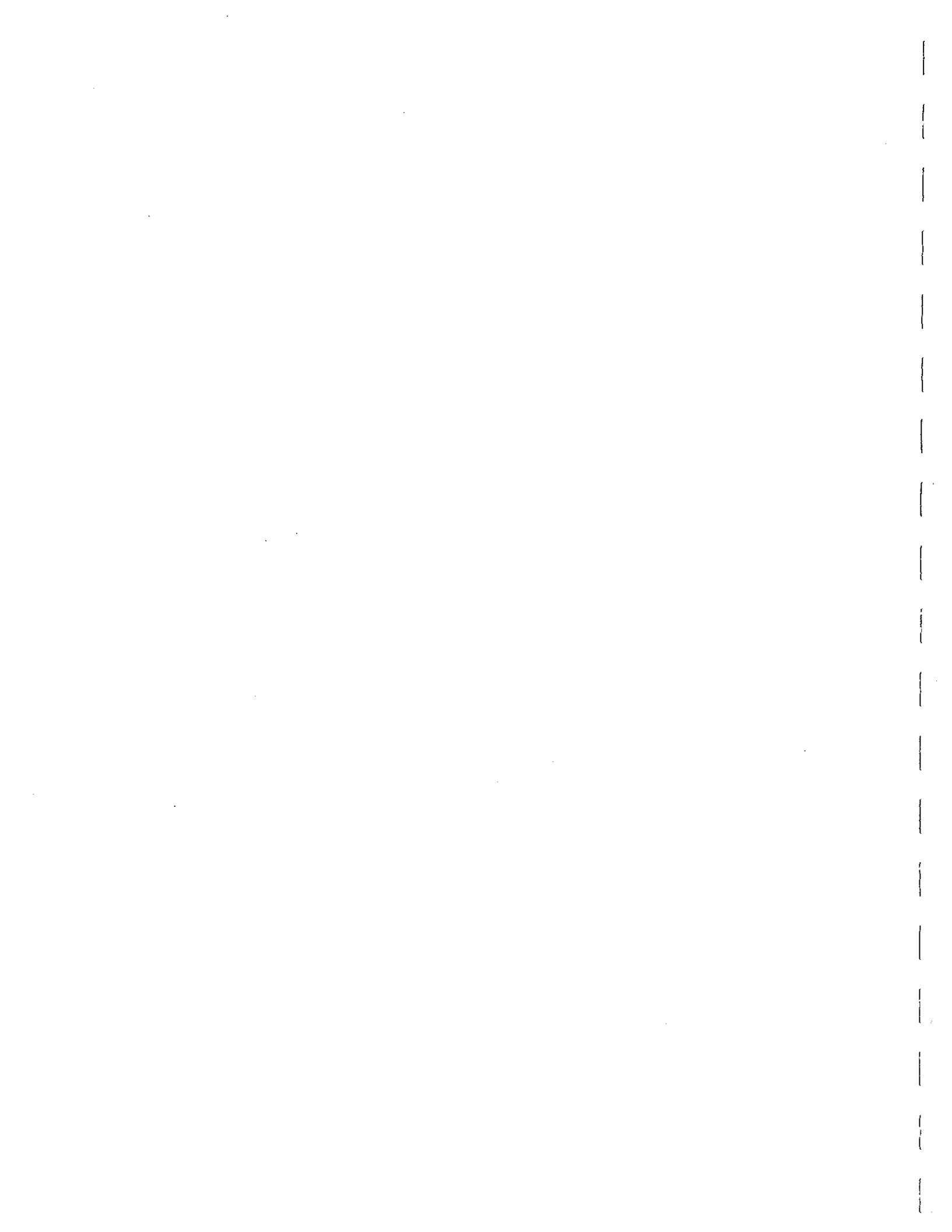
LAPEER COUNTY, MICHIGAN

**SUPPLEMENTARY INFORMATION TO
FINANCIAL STATEMENTS**

(FEDERAL AWARDS)

FOR THE YEAR ENDED DECEMBER 31, 2017





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, 2017 and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated June 20, 2018 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 20, 2018

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LAPEER COUNTY, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>	<u>Expenditures Passed to Subrecipients</u>
<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	\$ 321,616	\$ - *
Breastfeeding		IW100342	8,508	- *
Breastfeeding		W500342	17,221	- *
TOTAL U.S. DEPARTMENT OF AGRICULTURE			347,345	-
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
<u>Passed Through the Michigan Strategic Fund:</u>				
Community Development Block Grant- State's Program and Non-Entitlement Grants in Hawaii -	14.228			
Housing Rehabilitation		MSC 2015-0751-HOA	282,190	282,190
Revolving Loan Fund (RLF)		MSC 84-0029-ED	130,000	130,000
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			412,190	412,190
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
<u>Direct program:</u>				
Bulletproof Vest Partnership Program	16.607	N/A	3,995	-
<u>Passed Through the Michigan Department of State Police:</u>				
Edward Byrne Memorial Justice Assistance Prog.	16.738	2015-MU-BX-0964	32,000	18,300
TOTAL U.S. DEPARTMENT OF JUSTICE			35,995	18,300
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
<u>Passed Through the Michigan Department of State Police:</u>				
Highway Safety Cluster:				
National Priority Safety Programs	20.616	PT-17-43	30,222	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			30,222	-

See Notes to Schedule of Expenditures of Federal Awards

LAPEER COUNTY, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures	Expenditures Passed to Expenditures
<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		FS975487-15	\$ 1,411	\$ - *
Source Water Assessment		FS975487-15	400	- *
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>1,811</u>	<u>-</u>
<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	3,042	- *
Care Management		N/A	564	- *
Homemaker, P/C		N/A	34,452	- *
			<u>38,058</u>	<u>-</u>
Special Programs for the Aging-Title III, Part C -				
Nutrition Services -	93.045			
Congregate Meals		N/A	52,689	- *
Home Delivered Meals		N/A	91,358	- *
			<u>144,047</u>	<u>-</u>
Nutrition Services Incentive Program -	93.053			
Congregate Meals		N/A	10,458	- *
Home Delivered Meals		N/A	60,539	- *
			<u>70,997</u>	<u>-</u>
Total Aging Cluster			<u>253,102</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>1,195</u>	<u>-</u>
<u>Passed through the Michigan Department of Health and Human Services:</u>				
Child Support Enforcement -	93.563			
Friend of the Court - Cooperative Reimbursement		CSFOC17-44001	683,904	-
Prosecuting Attorney - Cooperative Reimbursement		CSPA17-44002	108,778	-
Federal Incentive Payments		N/A	149,895	-
			<u>942,577</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, 2017**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>	<u>Expenditures Passed To Subrecipients</u>
<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>				
Immunization Cooperative Agreements -	93.268			
Immunization Action Plan (IAP)		H23 CCH522556	\$ 15,162	\$ - *
Immunization Fixed Fees		H23 CCH522556	6,350	- *
Vaccine Doses		N/A	157,133	- *
			<u>178,645</u>	<u>-</u>
Public Health Emergency Preparedness -	93.069			
Bioterrorism		NU90TP000528	95,465	- *
Bioterrorism - Cities Readiness Initiative		NU90TP000528	21,876	- *
			<u>117,341</u>	<u>-</u>
Hospital Preparedness Program -	93.074			
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 - Public Health Emergency Preparedness		NU90TP921906	24,516	- *
Medicaid Cluster -				
Medical Assistance Program-	93.778			
Medicaid Outreach		05 U05M15ADM	16,565	- *
CSHCS CC - Care Coordination Level 2 Title V/XIX		05 U05M15ADM	1,500	- *
CSHCS CC - Care Coordination Level 1 (POC) Title V/XIX		05 U05M15ADM	18,800	- *
CSHCS - Medicaid Outreach		05 U05M15ADM	10,582	- *
CSHCS - Outreach & Advocacy		05 U05M15ADM	20,000	- *
Omnibus Budget Reconciliation Act		N/A	20,646	- *
Total Medicaid Cluster			<u>88,093</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 - Immunization Action Plan (IAP)	93.539	H23 IP000752	25,607	- *

See Notes to Schedule of Expenditures of Federal Awards

LAPEER COUNTY, MICHIGAN

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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>				
Maternal and Child Health Services Block Grant-	93.994			
Enabling Services - Children		B04MC29348	\$ 36,920	\$ - *
Public Health Functions & Infrastructure - MCH		B1MIMCHS	15,001	- *
CSHCS CC - Case Mgmt Services Title V		B1MIMCHS	202	- *
CSHCS CC - Care Coordination Level 2 Title V		B1MIMCHS	1,320	- *
CSHCS CC - Care Coordination Level 1 (POC) Title V/XIX		B1MIMCHS	9,050	- *
			<u>62,493</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,693,569</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 - Grant Program Year 2016	97.042	EMW-2017-BP-00001	25,910	-
<u>Passed through Iosco County:</u>				
Homeland Security Grant Program - Grant Program Year 2015	97.067	EMW-2015-SS-00033	40,477	-
Grant Program Year 2016		EMW-2016-SS-00010	19,742	-
			<u>60,219</u>	<u>-</u>
<u>Passed Through The Michigan Department of Natural Resources:</u>				
Boating Safety Financial Assistance - Marine Safety	97.012	N/A	10,100	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>96,229</u>	<u>-</u>
Total Federal Awards			<u>\$ 2,617,361</u>	<u>\$ 430,490</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, 2017

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, 2017. 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), 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 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 2017, 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).

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**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, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 20, 2018.

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 did identify 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 2017-001, 2017-002, and 2017-004 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 2017-003 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-005.

We noted certain matters that we reported to management in a separate letter dated June 20, 2018.

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.


Certified Public Accountants

June 20, 2018



**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 each of the County's major federal programs for the year ended December 31, 2017. 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. 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 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 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 qualified and unmodified opinions on compliance for the major federal programs. However, our audit does not provide a legal determination of the County's compliance.

Basis for Qualified Opinion on the Community Development Block Grant

As described in the accompanying schedule of findings and questioned costs, Lapeer County did not comply with requirements regarding CFDA 14.228, Community Development Block Grant, as described in finding number 2017-006, for subrecipient monitoring. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on the Community Development Block Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Lapeer 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 Community Development Block Grant for the year ended December 31, 2017.

Unmodified Opinion on the Other Major Federal Program

In our opinion, Lapeer 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 other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2017.

County's Response to Finding

The County's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Lapeer 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 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-006, that we consider to be a material weakness.

The County's response to the internal control over compliance finding identified in our audit is described in the accompanying corrective action plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

We noted certain matters that we reported to management in a separate letter dated June 20, 2018.

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

July 6, 2018

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LAPEER COUNTY, MICHIGAN

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Section I – Summary of Auditor’s Results:

Financial Statements

Type of auditor’s report issued: Unmodified

Internal controls over financial reporting:
Material weakness(es) identified? ☒ yes ☐ no
Significant deficiency(ies) identified not
considered to be material weaknesses? ☒ yes ☐ none reported

Noncompliance material to financial
statements noted? ☒ yes ☐ no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? ☒ yes ☐ no
Significant deficiency(ies) identified not
considered to be material weaknesses? ☐ yes ☒ none reported

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

CFDA #14.228 Community Development
Block Grant Qualified

CFDA #93.563 Child Support Enforcement 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 ☐ no

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
CFDA #14.228	Community Development Block Grant
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 ☒ no

LAPEER COUNTY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2017

Section II – Financial Statement Findings:

2017-001: Material Adjusting Entries (Repeat finding 2016-001)

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 correct the unlocated difference at December 31, 2107 for the pooled common cash account. (Note: This unlocated difference was the same amount determined with the January 2018 bank reconciliation.)
- To correct client posting of the County portion of the 2017 delinquent tax settlement, which understated cash and overstated interest on tax revenue in Delinquent Tax Revolving Fund.
- To correct accounting treatment of forfeiture of bonds for the Soil and Sedimentation Fund

Drain Funds:

- To reclassify prepaid drain assessments for the Indian Creek I-C Drain originally recorded in the debt fund to the capital projects fund and eliminate associated inter-fund transfer
- To reestablish inter-fund balances for amount owed by 801 Drain Fund to Imlay Bigelow Drain Debt Fund for prior year reclassification of drain assessments (bank transfer not made).
- To correct classification of transaction relative to South Br. Mill Creek I-C Drain from expenditure to prepaid

Medical Care Facility:

- To correct contra receivable account balance.
- To correct classification of health insurance for the month of January paid in December from accounts payable to prepaid expense

Recommendation: Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustments. In addition to eliminate/reduce future material audit adjustments, 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.

LAPEER COUNTY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2017

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

2017-002: Bank reconciliation differences should be corrected timely. (Repeat finding 2016-002)

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, 2017, the original December bank reconciliation for the County bank accounts indicate an unreconciled difference (bank balance in excess of book) of approximately of \$44,000. This compares to an unreconciled difference (bank balance in excess of book) of approximately \$47,000 at December 31, 2016. Bank reconciliations were performed on a monthly basis, but the account wasn't reconciled without an unreconciled difference in 2017. 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 the months of January-March 2017. However, there was a material transaction affecting cash identified as part of the audit relating to the month of April (unbalanced cash entry posted to the general ledger relative to the transfer of the County delinquent tax settlement).

Cause: The County has not implemented a control procedure 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. A bank reconciliation procedure should be adopted and should include the review and approval of the monthly bank reconciliations by someone independent of the preparer.

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, 2017**

2017-003: Preparation of the Financial Statements in Accordance with Generally Accepted Accounting Principles (Repeat finding 2016-004)

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.

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.

2017-004: Liabilities maintained in agency accounts should be reconciled to subsidiary records. (Repeat finding 2016-006)

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.

LAPEER COUNTY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2017

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.

2017-005: A budget for the Community Development Fund, a special revenue fund, was not adopted.

Type: Material noncompliance with Public Act 621 of 1978.

Condition: Expenditures of \$412,670 are reported in the Community Development Fund that were not budgeted.

Criteria: Public Act 621 of 1978 requires budgets for special revenue funds.

Cause: The expenditures relative to this fund's activity are pass-through subrecipient payments to subrecipients that administer a federal award program on behalf of the County, and due to this, a budget was inadvertently not adopted.

Effect: The County incurred expenditures of \$412,670 in the Community Development Fund in excess of a formally adopted budget required by Public Act 621 of 1978.

Recommendation: The County should adopt budgets for all special revenue funds, regardless of whether the County or a subrecipient administers the activity.

View of responsible officials and 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, 2017

Section III – Federal Award Program Findings and Questioned Costs:

2017-006: CFDA Number, Federal Agency, and Program Name -

CFDA #14.228, U.S. Department of Housing and Urban Development, Community Development Block Grant – State’s Program and Non-Entitlement Grants in Hawaii – Housing Rehabilitation and Revolving Loan Fund
Pass – through grantor’s number – MSC 2015-0751-HOA and MSC 84-0029-ED

Type: Material weakness in internal control over the major program and material noncompliance with the subrecipient monitoring compliance requirement.

Criteria: In accordance with §200.330, *Subrecipient and Contractor Determinations*, a pass-through entity must make case-by-case determinations on whether each agreement it makes for the disbursement of federal program funds casts the party receiving the funds in the role of a subrecipient or contractor. Characteristics which support the classification of the non-federal entity as a subrecipient include when the non-federal entity:

- (1) Determines who is eligible to receive federal assistance;
- (2) Has its performance measured in relation to whether objectives of a federal award program were met;
- (3) Has responsibility for programmatic decision making;
- (4) Is responsible for adherence to applicable federal program requirements specified in the federal award; and
- (5) In accordance with its agreement, uses the federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.

In accordance with §200.331, *Requirements for Pass-through Entities*, all pass-through entities must: (a) ensure that every sub-award is clearly identified to the subrecipient as a sub-award and includes the following information at the time of the sub-award, and if any of these data elements change, include the changes in subsequent sub-award modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the federal award and sub-award. Required information includes, among other things:

- (1) Federal award identification
- (2) Federal Award Identification Number (FAIN)
- (3) Sub-award Period of Performance
- (4) Federal award date
- (5) Name of the federal awarding agency, pass-through entity, and contact information for awarding official
- (6) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each federal award and the CFDA number at time of disbursement
- (7) All requirements imposed by the pass-through entity on the subrecipient so that the federal award is used in accordance with federal statutes, regulations, and the terms and conditions of the federal award.
- (8) Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the federal awarding agency, including identification of any required financial and performance reports.

LAPEER COUNTY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2017

Condition: During the audit, it was noted that the County contracts with a third party to administer various significant aspects of the grants. Upon examination of the contract, it was determined that the relationship is that of a subrecipient. Consequently, various required communications of §200.331 to the subrecipient were not undertaken.

Questioned Costs: None.

Cause: The County's subrecipient monitoring policies and procedures do not contain provisions explaining the analysis required to be undertaken on significant contracts/sub-awards to determine whether the relationship is that of a subrecipient (and thus subject to the above criteria) or that of a contractor.

Effect: The County had previously considered the relationships as that of a contractor. Consequently, the contract agreements with the subrecipients did not contain various required communications of §200.331. As a result of this, the funds in question were not included on the subrecipients' Schedule of Expenditures of Federal Awards.

Recommendation: We recommend that the County develop specific federal award policies and procedures over subrecipient monitoring to include analyzing significant contracts for subrecipient vs. contractor determinations to ensure the required information as prescribed by §200.331 is included in all sub-awards to subrecipients.

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

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LAPEER COUNTY, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2017

The responses provided below for findings reported in the 2016 single audit, identified as 2016-001, 2016-002, and 2016-004 through 2016-006, were provided by John Biscoe, Controller/Administrator of Lapeer County and by Tony Roeske, Controller of the Lapeer County Medical Care Facility for finding 2016-003.

Finding 2016-001:

2016-001: Material adjusting entries were proposed to correct the County's General Ledger to properly reflect the appropriate balances in accordance with GAAP.

Status of finding: The County has not cleared this finding, which has been repeated in the current year as finding 2017-001.

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. Both the independent auditors and County Finance Department continue to provide training and education to the statutorily independent Drain Office.

Finding 2016-002:

2016-002: The December bank reconciliation noted a difference of approximately \$47,000. Furthermore, none of the monthly reconciliations indicated the same unreconciled difference.

Status of finding: The County has not cleared this finding, which has been repeated in the current year as finding 2017-002.

Reason for reoccurrence: Monthly bank reconciliations were attempted throughout the year. However, similar to the prior year, the monthly reconciliations did not total the same unreconciled difference.

Planned corrective action: In May 2018, the County undertook significant training over this area, including implementing a new reconciliation methodology which included new reconciliation templates, as well as working with their General Ledger software maintenance provider to generate receipt reports to assist in the reconciliation process. Furthermore, a County Finance Department employee independent of the reconciliation process will be responsible for reviewing the monthly reconciliation by the 20th of each month subsequent to the month being reconciled, per the new County policy.

LAPEER COUNTY, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2017

Finding 2016-003:

2016-003: 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.

Status of finding: The County has cleared this finding. Reported corrective action in the prior year was taken.

Finding 2016-004:

2016-004: The County does not currently possess the in-house capabilities to evaluate whether the financial statement presentation and disclosures are in accordance with GAAP.

Status of finding: The County has not cleared this finding, which has been repeated in the current year as finding 2017-003.

Reason for reoccurrence: The County is required to prepare financial statements in accordance with GAAP. The County has determined 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 at this time. The Controller/Administrator still feels this is the best utilization of limited County resources.

Finding 2016-005:

2016-005: There is a lack of monitoring over the County Drainage District Funds, which has led to fund structures and certain transactions that are not in accordance with the Michigan Department of Treasury's State Uniform Chart of Accounts.

Status of finding: The County has cleared this finding. Reported corrective action in the prior year was taken.

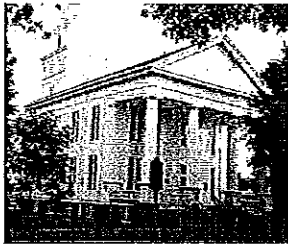
Finding 2016-006:

2016-006: Reconciliation of various Agency Fund liabilities accounts in the General Ledger to subsidiary records is not being performed on a regular basis.

Status of finding: The County has not cleared this finding, which has been repeated in the current year as finding 2017-004.

Reason for reoccurrence: Staffing changes in a number of affected departments delayed the implementation of the previously planned corrective action.

Planned corrective action: The County Finance Department has assigned a staff member to monitor this area by way of monthly inquiry to the affected departments of the reconciliation status of the agency accounts, as well as offering assistance if additional reconciliation assistance is necessary.



MICHIGAN'S OLDEST COURTHOUSE

Lapeer County Administration Office

255 Clay Street, Suite 301
Lapeer, Michigan 48446

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

July 02, 2018

County Response to "Schedule of Findings and Questioned Costs" for the year ended December 31, 2017.

Section II – Financial Statement Findings

2017-001 Material Adjusting Entries

County Response:

The County has taken corrective action by reviewing and approving the proposed audit adjustments. In addition to eliminating and/or reducing future material audit adjustments, the County Finance Department shall 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. The County continues to offer assistance to the statutorily elected County Drain Commissioner in preparing timely entries. The Medical Care Facility is not a department of the County, and therefore, has no control of its staff or management and are only reported in the County's financial statements as a component unit. Therefore, the MCF's management is preparing its own response to this matter.

2017-002 Bank reconciliation differences should be corrected timely.

County Response:

The County has reviewed procedures and internal controls in the area of bank account reconciliations. The revised procedures require completion of bank reconciliation including posting of all entries so that there are no unreconciled differences by the 20th of each month and that reconciliation reports be reviewed and signed off on by the County Treasurer or County Controller by the end of each month. We continue to work with technology to increase the ease and accuracy of the reconciliation process.

2017-003 Preparation of the Financial Statements in Accordance with Generally Accepted Accounting Principles

County Response:

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. No further action is considered necessary at this time.

2017-004 Liabilities maintained in agency accounts should be reconciled to the 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 will continue to be offered in the future to assist the account clerks hired into the statutorily elected offices to assist them in gaining the understanding and proficiency to maintain these accounts.

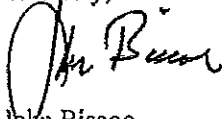
2017-005 A budget for the Community Development Fund, a special revenue fund, was not adopted.

County Response:

The County shall take steps to assure a budget is adopted for all special revenue funds, regardless of whether the County or a subrecipient administers the activity.

We appreciate the opportunity to submit our responses to the Schedule of Findings and Questioned Costs for the year ended December 31, 2017. We believe the implementation of the aforementioned comments and suggestions and our improvements or changes in procedures will not only correct the findings, but prevent them from reoccurring in the future.

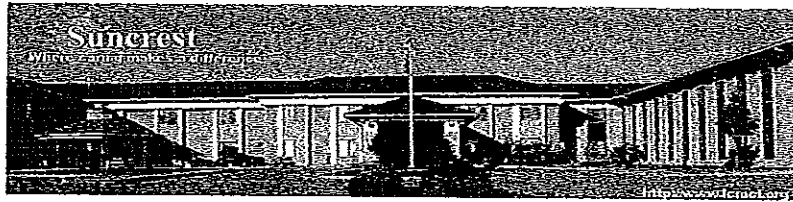
Sincerely,

A handwritten signature in black ink, appearing to read "John Biscoe", written over a horizontal line.

John Biscoe

County Controller/Administrator

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

July 6, 2018

Medical Care Facility responses to "Schedule of Findings and Questioned Costs: for the year ending December 31, 2017.

Section II – Financial Statement Findings


2017-001 Material Adjusting Entries

Medical Care Facility Response:

Contra Receivable account: The Office Manager in coordination with the Billing Clerks 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 & Prepaid (Accounts 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.


Gary Easton
Administrator
Lapeer County Medical Care Facility

7/6/2018
Date

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