

County of Allegan,
Michigan



Year Ended
December 31,
2013

Single Audit Act
Compliance

COUNTY OF ALLEGAN, MICHIGAN

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INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

June 27, 2014

Honorable Members of the Board of Commissioners
of the County of Allegan
Allegan, 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 the *County of Allegan, Michigan* (the "County") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated June 27, 2014, which contained unmodified opinions on those financial statements. Our audit was performed 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 purposes of additional analysis as required by OMB Circular A-133 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 basic financial statements and certain other 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.

A handwritten signature in black ink that reads "Rehmann Loborn LLC". The signature is written in a cursive, flowing style.

COUNTY OF ALLEGAN, MICHIGAN

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2013

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Agriculture				
Child Nutrition Cluster:				
Breakfast Program	10.553	MDE	03-000-8001	\$ 16,580
Lunch Program	10.555	MDE	03-000-8001	30,943
Commodities (non-cash assistance)	10.555	MDE	03-000-8001	<u>3,959</u>
Total U.S. Department of Agriculture				<u>51,482</u>
U.S. Department of Housing and Urban Development				
Supportive Housing Program / Path Grants:				
Rent / Utilities	14.235	MDCH	MI0016B5F001104	57,992
Rent / Utilities	14.235	MDCH	MI0284BF001103	18,582
Rent / Utilities	14.235	MDCH	MI0336B5F001000	23,552
Rent / Utilities (Chronic)	14.235	MDCH	MI0283B5F001103	<u>19,278</u>
				119,404
Shelter Plus Care	14.238	LCC	-n/a-	<u>17,531</u>
Total U.S. Department of Housing and Urban Development				<u>136,935</u>
U.S. Department of Justice				
Justice Assistance Grant Cluster:				
West Michigan Enforcement Team (WEMET)				
Drug and Gang Task Force:				
October 1, 2012 - September 30, 2013	16.738	CO	70834-5-13-B	5,613
October 1, 2013 - September 30, 2014	16.738	CO	70834-6-14-B	16,798
Edwin Byrne Memorial Justice Grant	16.738	SCAO	2012-DJ-BX-0109	34,078
ARRA - Edwin Byrne Memorial Justice Grant	16.804	Direct	2009-SB-B9-1498	<u>8,202</u>
Total U.S. Department of Justice				<u>64,691</u>
U.S. Department of Transportation				
Capital Assistance - Section 5309 - Z24	20.500	MDOT	2007-0157/Z24	<u>4,528</u>
Operating Assistance - Section 5311 (Oct. 2012 - Sept. 2013)	20.509	MDOT	2012-0028/P9	111,205
Operating Assistance - Section 5311 (Oct. 2013 - Sept. 2014)	20.509	MDOT	2012-0028/P17	14,638
ARRA - Capital Assistance - Section 5311	20.509	MDOT	2007-0157/Z21	109,954
RTAP Training Funds	20.509	MDOT	-n/a-	<u>757</u>
				<u>236,554</u>
Transit Services Program Cluster:				
Job Access Reverse Commute - Section 5316:				
October 1, 2012 - September 30, 2013	20.516	MDOT	2012-0028/P6	38,362
October 1, 2013 - September 30, 2014	20.516	MDOT	2012-0028/P15	12,788
Capital Assistance - Section 5317 - P14	20.521	MDOT	2012-0028/P14	7,325
Capital Assistance - Section 5317 - P7	20.521	MDOT	2012-0028/P7	<u>16,462</u>
				<u>74,937</u>

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COUNTY OF ALLEGAN, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2013

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Transportation (Concluded)				
Highway Safety Cluster:				
OWI Enforcement (Oct. 2012 - Sept. 2013)	20.600	MSP	PT-13-03	\$ 38,346
Alcohol Impaired Driving Countermeasures Incentive Grant:				
October 1, 2012 - September 30, 2013	20.601	SCAO	AL-13-01	28,168
October 1, 2013 - September 30, 2014	20.601	SCAO	AL-14-05	9,889
				<u>76,403</u>
Total U.S. Department of Transportation				<u>392,422</u>
U.S. Environmental Protection Agency				
Clean Water State Revolving Funds	66.458	MDEQ	5458-01	<u>2,140,564</u>
State Drinking Water Revolving Loan Fund Program	66.468	MDEQ	-n/a-	<u>974</u>
Operators of Small Water Systems Training/Certification	66.471	MDEQ	FS975548710	<u>731</u>
Beach Monitoring and Notification	66.472	MDEQ	-n/a-	<u>12,608</u>
Brownfield Assessment and Cleanup	66.818	Direct	BF-00E00361-0	106,983
Brownfield Assessment and Cleanup	66.818	Direct	BF-00E00362-0	80,471
				<u>187,454</u>
Total U.S. Environmental Protection Agency				<u>2,342,331</u>
U.S. Department of Health and Human Services				
Public Health Emergency Preparedness (Bioterrorism):				
Bioterrorism Supplemental	93.069	MDCH	CCU517018	14,062
Hospital Preparedness Program (Oct. 2012 - Sept. 2013)	93.069	MDCH	U90TP000528	90,550
Hospital Preparedness Program (Oct. 2013 - Sept. 2014)	93.069	MDCH	U90TP000528	35,288
				<u>139,900</u>
Path Supportive Services	93.150	MDCH	2X06SM060023-12	<u>16,255</u>
Substance Abuse and Mental Health Services				
Administration - Peers Employed in EBP for Recovery (PEER) Grant	93.243	KCMHSAS	-n/a-	<u>47,006</u>
Immunization Cluster:				
Immunization Action Plan (IAP):				
October 1, 2012 - September 30, 2013	93.268	MDCH	H23CCH62556	42,224
October 1, 2013 - September 30, 2014	93.268	MDCH	H23CCH62556	19,700
Vaccines (non-cash assistance)	93.268	MDCH	-n/a-	77,024
				<u>138,948</u>
Substance Abuse and Mental Health Services				
Administration - Drug Free Communities Support Program	93.276	MDHS	-n/a-	<u>117,972</u>

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COUNTY OF ALLEGAN, MICHIGAN

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2013

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Health and Human Services (Concluded)				
Child Support Enforcement:				
Friend of the Court Incentive Payments	93.563	MDHS	CSCOM-10-03003	\$ 151,631
Cooperative Reimbursement Program	93.563	MDHS	CSCOM-13-03003	686,910
				<u>838,541</u>
Medicaid Cluster:				
Child Special Health Care Services:				
Outreach and Advocacy:				
October 1, 2012 - September 30, 2013	93.778	MDCH	05U05M15ADM	30,001
October 1, 2013 - September 30, 2014	93.778	MDCH	05U05M15ADM	9,999
Medicaid Outreach:				
October 1, 2012 - September 30, 2013	93.778	MDCH	05U05M15ADM	25,736
Medicaid Outreach:				
October 1, 2012 - September 30, 2013	93.778	MDCH	05U05M15ADM	50,377
October 1, 2013 - September 30, 2014	93.778	MDCH	05U05M15ADM	24,488
Omnibus Budget Reconciliation Act (OBRA)	93.778	MDCH	-n/a-	88,812
				<u>229,413</u>
HIV Prevention Activities (Oct. 2012 - Sept. 2013)	93.940	MDCH	U62PS003671	2,394
HIV Prevention Activities (Oct. 2013 - Sept. 2014)	93.940	MDCH	U62PS003671	5,348
				<u>7,742</u>
Substance Abuse Block Grant - Prevention	93.959	LCC	-n/a-	129,400
Substance Abuse Block Grant - Prevention	93.959	Direct	-n/a-	3,796
				<u>133,196</u>
Maternal and Child Health Services Block Grant:				
Fetal Infant Mortality Review (FMR) Case Abstraction:				
October 1, 2012 - September 30, 2013	93.994	MDCH	B1MIMCHS	1,014
Maternal and Infant Health Plan (MIHP):				
October 1, 2012 - September 30, 2013	93.994	MDCH	B1MIMCHS	12,188
October 1, 2013 - September 30, 2014	93.994	MDCH	B1MIMCHS	26,463
Child Special Health Care Services:				
October 1, 2012 - September 30, 2013	93.994	MDCH	B1MIMCHS	16,847
October 1, 2013 - September 30, 2014	93.994	MDCH	B1MIMCHS	3,060
Other Child Special Health Care Services:				
October 1, 2012 - September 30, 2013	93.994	MDCH	B1MIMCHS	6,813
October 1, 2013 - September 30, 2014	93.994	MDCH	B1MIMCHS	2,270
				<u>68,655</u>
Total U.S. Department of Health and Human Services				<u>1,737,628</u>
Executive Office of the President				
High Intensity Drug Trafficking Areas Program (HIDTA)	95.001	CO	-n/a-	11,807

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COUNTY OF ALLEGAN, MICHIGAN

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2013

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Homeland Security				
Disaster Grants - Public Assistance	97.036	MSP	FEMA DR-4121-MI	\$ 4,774
Emergency Management Performance Program	97.042	MSP	70-0519-0-1-999	36,146
Pre-Disaster Mitigation Program	97.047	Direct	-n/a-	2,133
2010 Homeland Security Grant (non-cash assistance)	97.067	CV	-n/a-	50,720
2011 Homeland Security Grant	97.067	CV	2011-SS-00103	5,169
				<u>55,889</u>
Total U.S. Department of Homeland Security				<u>98,942</u>
Total Expenditures of Federal Awards				<u>\$ 4,836,238</u>

concluded

See notes to schedule of expenditures of federal awards.

COUNTY OF ALLEGAN, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the County of Allegan, Michigan (the "County") under programs of the federal government for the year ended December 31, 2013. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position or cash flows of the County.

The County's reporting entity is defined in Note 1 of the County's financial statements. The County's financial statements include the operations of the Allegan County Road Commission, a discretely presented component unit, which received federal awards that are not included in the Schedule for the year ended December 31, 2013, as this entity was separately audited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the County's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

3. RECONCILIATION TO FINANCIAL STATEMENTS

A reconciliation of the amounts presented in the Schedule to the amounts presented in the financial statements is as follows:

Federal revenue as reported in the governmental fund financial statements:	
Primary government	\$ 2,684,370
Drain Commission component unit	4,774
Amounts received under a vendor relationship	(17,930)
Non-cash assistance recorded as government-wide adjustment	50,720
Federal awards reported as debt proceeds in the Drain Commission / Board of Public Works component unit	2,140,564
Supplemental payments related to prior year costs based on availability of additional funding	<u>(26,260)</u>
Federal expenditures as reported in the schedule of expenditures of federal awards	<u>\$ 4,836,238</u>

COUNTY OF ALLEGAN, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

4. PASS-THROUGH AGENCIES

The County receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
CO	County of Ottawa, Michigan
CV	County of Van Buren, Michigan
KCMHSAS	Kalamazoo Community Mental Health and Substance Abuse Services
LCC	Lakeshore Coordinating Council
MDCH	Michigan Department of Community Health
MDE	Michigan Department of Education
MDEQ	Michigan Department of Environmental Quality
MDHS	Michigan Department of Human Services
MDOT	Michigan Department of Transportation
MSP	Michigan Department of State Police
SCAO	Michigan State Court Administrative Office



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**INDEPENDENT AUDITORS' 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***

June 27, 2014

Honorable members of the Board of Commissioners
of the County of Allegan
Allegan, 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 the *County Allegan County, Michigan* (the "County"), as of and for the year ended December 31, 2013, 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 27, 2014. Our report includes a reference to other auditors who audited the financial statements of the Allegan County Road Commission, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial 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 2013-FS-01, -02, -05, and -06 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-FS-03 and -04 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County of Allegan, 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

June 27, 2014

Honorable members of the Board of Commissioners
of the County of Allegan
Allegan, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of the *County of Allegan, Michigan* (the "County") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2013. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The County's basic financial statements include the operations of the Allegan County Road Commission, which received certain federal awards which are not included in the schedule of expenditures of federal awards for the year ended December 31, 2013. Our audit, described below, did not include the operations of the Allegan County Road Commission because it arranged for a separate financial statement audit and did not meet the criteria for a single audit in accordance with A-133, as expenditures of directly administered federal awards did not exceed \$500,000.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



COUNTY OF ALLEGAN, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? 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? yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? yes X no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.458	Clean Water State Revolving Funds
93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

COUNTY OF ALLEGAN, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-01 - Preparation of Financial Statements (Repeated from Prior Year)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition. As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls. As described in item 2013-FS-02, we noted the need for variety of adjustments to the original schedules provided by the County to support year-end balances.

Cause. This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation. We recommend that the County ensure that members of management responsible for the accounting and reporting function receive appropriate training to ensure that they are able to apply generally accepted accounting principles in preparing the County's financial statements, even if it intends to continue to outsource the actual preparation of these statements to its independent auditors. Year-end schedules and calculations should be subjected to an internal review and approval process before information is provided to the auditors.

View of Responsible Officials. The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

COUNTY OF ALLEGAN, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-02 - Material Audit Adjustments (Repeated from Prior Year)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During our audit, we identified and proposed numerous adjustments, which were approved by management and posted to the County's accounting records. These adjustments included, but were not limited to: adjusting leases receivable and accounting for short- and long-term debt activity in the Drain Commission/DPW component unit; recording payables for amounts paid after year-end for 2013 services; adjusting contractor retainage payable to year-end applications for payment, recording an off-books bank account in the general ledger, accounting for capital asset activity of the primary government and Drain Commission/DPW component unit, and recording a receivable for the Medicaid Cost Report in the health department. In our opinion, these adjustments had a material effect on the County's financial statements.

Cause. This condition was caused by various oversights, including those in decentralized locations, in identifying relevant financial information and providing documentation to the County's finance department.

Effect. As a result of this condition, the County's accounting records were initially misstated by amounts that were material to the financial statements. In addition, the County was exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be detected and corrected by management in a timely manner.

Recommendation. The adjustments noted above have been reviewed by management, posted to the County's records, and are reported correctly in the audited financial statements. If designed appropriately in order to maintain independence under professional standards, the auditors may be able to provide certain assistance with year-end accounting and financial reporting. However, it should be noted that this service is not part of a financial statement audit and would be subject to additional fees.

View of Responsible Officials. The County has created two new full time positions in the Finance Department; these positions will have a positive impact on reducing the number of year end entries. Also, time was invested in re-aligning some procedures within the Drain/DPW to have data compiled throughout the year to be in a format that is ready for a year end audit testing.

COUNTY OF ALLEGAN, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-03 - Preparation of Schedule of Expenditures of Federal Awards (Repeated from Prior Year)

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. OMB Circular A-133, §___.300, requires that the County “identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass through entity.” In addition, the County is required to “prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.”

Condition. The Schedule of Expenditures of Federal Awards (“SEFA”) provided by the County did not consistently identify and subtotal amounts expended during the County’s fiscal year at the applicable federal funding percentage. Accordingly, a substantial amount of manual calculations, inquiries, and requests for source documentation were required in order to determine the accurate amounts for reporting on the SEFA. We noted that 3 grants were initially identified under the incorrect CFDA number and one grant was not appropriately identified as being ARRA-funded. Health department awards were initially presented in the SEFA based on cash receipted without a provision for receivables or unearned revenue. Finally, the County received homeland security grants in the form of non-cash assistance which had not been appropriately identified and included on the SEFA. The net value of the misstatements was an understatement of approximately \$135,000 or 3% of the total SEFA. We consider this amount to be significant, but not material to the financial statements of the County as a whole.

Cause. As is the case with many County governments, Allegan County administers a vast array of federal and state grants throughout its many departments. The function of grant administration is therefore very decentralized.

Effect. As a result of this condition, the County’s schedule of expenditures of federal awards was initially misstated.

Recommendation. We recommend that the County formally adopt a policy for grants administration, and clearly assign the responsibility for grant reporting and preparation of the SEFA each year. Each award should be presented at the level of detail required by OMB Circular A-133, including: CFDA number, pass-through agency name, award number, and Federal expenditures. If an award spans multiple fiscal years or is reimbursed at less than 100% of actual cost, appropriate subtotals and calculations should be included with the amount to be presented on the SEFA clearly indicated. All grant financial reports should be reviewed centrally by a member of management prior to submission and compared to the County’s accounting records. Similarly, incoming grant receipts should be reviewed to determine the appropriate program for coding in the general ledger. Differences between amounts requested, amounts received, and/or amounts reported on the County’s accounting records should be promptly investigated and resolved.

COUNTY OF ALLEGAN, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-03 - Preparation of Schedule of Expenditures of Federal Awards (Repeated from Prior Year)
(Concluded)

View of Responsible Officials. The County has created two new positions in the finance department. These individuals are responsible for overseeing grants of the County and the financial activity of the health department. This additional staffing is expected to reduce or eliminate this condition in the future.

COUNTY OF ALLEGAN, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-04 - Unreconciled / Unsupported Fiduciary Liabilities (Repeated from Prior Year)

Finding Type. Significant Deficiency in Internal Control over Financial Reporting.

Criteria. The County uses agency funds to account for assets held on behalf of outside parties, including other governments. Accordingly, the County is required to keep accurate subsidiary records of the amounts held in each liability account. These accounts should be analyzed and reconciled on a regular basis (e.g., monthly or quarterly.) Amounts collected on behalf of others should be remitted to the appropriate parties in a timely manner or as required by State statute.

Condition. During our audit, we requested support for various accounts held as part of the County's agency fund. We were able to substantiate the offsetting cash balances in their entirety. However, we noted several balances that could not be supported, either because the subledger is only available at a point-in-time and had not been generated and retained, or because the account was unreconciled. The balances selected for testing that could not be supported included: juvenile restitutions payable of \$55,764, bonds payable of \$8,746, employee health insurance contributions of \$4,529 (also representative of an error in petty cash), and jail inmate/commissary balances of \$35,250.

Cause. The County does not have an established policy requiring the periodic reconciliation of all balance sheet accounts. For certain accounts, a detail report can only be generated in real-time. Management was able to provide us with detail as of the date we made our request, but year-end reports were not consistently generated and retained.

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

Recommendation. The County made substantial progress in investigating and reconciling agency fund liabilities in the current year. We recommend that the County continue to reconcile these accounts on a periodic basis and investigate any variances. To the extent possible, these reconciliations and supporting subledgers should be retained as evidence of the process. This is especially important for subledgers that can only be generated real-time.

COUNTY OF ALLEGAN, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-04 - Unreconciled / Unsupported Fiduciary Liabilities (Repeated from Prior Year) (Concluded)

View of Responsible Officials. Consistent with the County's operating strategy a team-based approach to audit preparation has been deployed. A central Audit Team has been assembled consisting of representatives from the following areas: County Clerk's Office, Finance, Drain Commission, Courts, Sheriff's Department and Treasurer's Office. Other stakeholders participate as necessary. The team meets year-round and is focused on ensuring necessary processes, reconciliations, reports and transactions are completed in advance of the audit by following a proactive audit schedule. In addition, the team develops plans and procedures to either correct or prevent audit findings. Currently, this includes developing new procedures relative to monthly reconciliations and accurate support of balances.

COUNTY OF ALLEGAN, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-05 - Segregation of Incompatible Duties at the Medical Care Community (Repeated from Prior Year)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

(as reported in the separately issued audit for the Medical Care Community)

Criteria. Management is responsible for establishing and maintaining effective internal controls in order to safeguard the assets of the County. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition. The Organization has several transaction cycles that are performed by the same individual and/or are not subject to documented independent review and approval, including: (1) resident billing, maintenance of the accounts receivable subledger, and general ledger maintenance; (2) processing/approving the final payroll register prior to the release of checks; (3) initiating and approving non-routine transactions, such as general journal entries and noncash adjustments to resident accounts; (4) reconciling bank accounts and having a primary responsibility for accounts receivable, accounts payable, and/or general ledger maintenance; (5) handling cash, posting to resident accounts, and preparing the bank deposit; (6) approving invoices for payment.

Cause. This condition is the result of staffing constraints typical of smaller organizations.

Effect. As a result of this condition, the Organization is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be detected by management on a timely basis.

Recommendation. While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials. Subsequent to year-end, the Organization has invested a considerable amount of time in reviewing the existing internal controls, revising such processes to segregate incompatible duties or provide for a documented, independent review and approval, and preparing written policies to clearly describe the control environment. This process is expected to continue with the hiring of a new accounting manager. While the limited size of the Organization's business office may not allow for complete corrective action, this finding is expected to be decreased in severity in the future.

COUNTY OF ALLEGAN, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

2013-FS-06 - Internal Controls over Capital Asset Accounting (Repeated from Prior Year)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining capital asset records which contain all information necessary to accurately report these items in the financial statements. These records should be updated at least once per year, calculate depreciation expense using allowable methodology, and segregate depreciable assets from nondepreciable assets (including construction in progress). The records should separately identify amounts by opinion unit for appropriate presentation in the financial statements.

Condition. The capital asset records provided by the County contained a variety of errors and omissions: (1) certain beginning balances did not agree to the prior year records; (2) depreciation expense was not initially recorded in proprietary funds; (3) year-end accounts payable accruals and adjustments to retainage payable were not factored into total construction in progress; (4) various donated items were initially omitted; (5) capital items that had been charged to a contracted services general ledger account number were initially omitted; (6) debt service expense was incorrectly included in drain infrastructure construction in progress; (7) amounts initially identified as capital additions were ultimately determined to be routine repairs and maintenance.

Cause. This condition appears to be the result of various oversights in accumulating the necessary information and posting adjustments to the general ledger.

Effect. As a result of this condition, the County's capital asset records were initially misstated by amounts material to the financial statements.

Recommendation. We recommend that the County implement a procedure to evaluate the reasonableness of current year capital asset activity in comparison to capital outlay expense in the trial balance, capital items approved in the board minutes, and comparison to the prior year. Given the number of different schedules and Excel-bases formulas, we recommend that the workpapers be subject to review and approval by an independent employee or administrator before being provided to the auditors.

View of Responsible Officials. The Finance Department in conjunction with the Audit Team will be making procedural adjustments to better track capital assets and to assure these assets are charged to the correct accounts.

COUNTY OF ALLEGAN, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2013

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



COUNTY OF ALLEGAN, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2013

2012-FS-01 - Preparation of Financial Statements

The County has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Management has determined that this is the most cost-effective approach for the government at this time and expects this item to be repeated. Refer to item 2013-FS-01.

2012-FS-02 - Material Audit Adjustments

The auditors identified and proposed material adjustments (which were approved and posted by management) to adjust the County's general ledger to the appropriate balances. This finding was repeated for a variety of related and unrelated adjustments. Refer to item 2013-FS-02.

2012-FS-03 - Preparation of Schedule of Expenditures of Federal Awards

Several errors and omissions were noted in the schedule of expenditures of federal awards, prepared in accordance with OMB Circular A-133, for purposes of the single audit. The auditors noted improvement in the process for identifying and reporting federal award activity. The net misstatement in the current year was still significant, but less than that of the prior year. Accordingly, this item has been repeated as item 2013-FS-03 but reduced in severity from a material weakness to a significant deficiency.

2012-FS-04 - Unreconciled / Unsupported Fiduciary Liabilities

The County had several fiduciary liability accounts that were either unsupported by a subledger or not reconciled to the general ledger. The County made a substantial effort to review and reconcile such balances, but due to the volume of accounts, certain balances still remain unsupported/unreconciled. This item has been repeated as 2013-FS-04 but reduced in severity from a material weakness to a significant deficiency.

2012-FS-05 - Timely Remittance of Collections to Other Governments

The County did not remit certain collections made on behalf of the State of Michigan and other local governments with the statutory period mandated by the State Department of Treasury. No repeat instances were noted in the current year.

COUNTY OF ALLEGAN, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2013

2012-FS-06 - Segregation of Incompatible Duties at the Medical Care Community

The Medical Care Community has a variety of incompatible accounting duties that are not appropriately segregated and/or not subject to a documented review and approval in order to mitigate risk. The Medical Care Community did not begin the process of reviewing existing processes and determining appropriate corrective action until well into 2014. This finding has been repeated as 2013-FS-05.

2012-FS-07 - Internal Controls over Special Assessment Accounting

Various errors were noted in the schedules for special assessments receivable based on incorrect parameters for system-generated reports and errors in manual adjustments to such records. The reports provided in the current year were materially corrected and, therefore, this item has not been repeated. An audit-proposed adjustment was still required in order to agree the system report to the County's general ledger, but this adjustment was not quantitatively material.

2012-FS-08 - Internal Controls over Cash Receipting at the Animal Shelter

Cash was collected at the Animal Shelter by a single individual who was also responsible for preparing the bank deposit and remitting funds to the County Treasurer. The County has revised this process to provide for a reconciliation of cash activity to the Animal Shelter's ancillary software system for tracking adoptions and other activity. However, this reconciliation is not being subjected to independent review and approval. The corrective action taken thus far has reduced the severity of matter which has not been repeated in the single audit report. A general comment on cash receipting at decentralized locations has been included in the letter to those charged with governance.

2012-FS-09 - Internal Controls over Capital Asset Accounting

The capital asset records provided by the County contained a variety of errors and omissions. Certain aspects of this condition were addressed, but many were noted again in the current year. This finding has been repeated as 2013-FS-06.

2012-SA-01 - Preparation of Schedule of Expenditures of Federal Awards

Clean Water State Revolving Funds - CFDA #66.458 and Child Support Enforcement - CFDA #93.563

The amounts initially included in the schedule of expenditures of federal awards for certain major programs required material corrections in order to agree to source documentation. A repeat comment on the quantitative effect of current year errors is reported as item 2013-FS-03. Since the errors noted in the current year did not relate to major programs, this item was not repeated as an A-133 finding.

COUNTY OF ALLEGAN, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2013

2012-SA-02 - Internal Controls over Suspension and Debarment
Clean Water State Revolving Funds - CFDA #66.458

The County has hired a project management company to coordinate the procurement process under this grant. This company is performing appropriate suspension/debarment procedures. However, the County did not perform any such procedures related to the project management company itself. The County has since determined that this company is not actually suspended or debarred. The standard language included in contracts by the County's purchasing department has been modified to include appropriate language in contracts executed going forward. Corrective action is deemed sufficient.

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