

Gratiot County
Single Audit Report
September 30, 2024



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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*

Independent Auditors' Report

Management and County Commissioners
Gratiot County
Ithaca, 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 Gratiot County as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise Gratiot County's basic financial statements, and have issued our report thereon dated May 5, 2025.

Our report includes a reference to other auditors who audited the financial statements of the Gratiot County Road Commission, as described in our report on Gratiot 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gratiot County's internal control over financial reporting (internal control) as a basis for designing 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 Gratiot County's internal control. Accordingly, we do not express an opinion on the effectiveness of Gratiot County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2024-001, 2024-002 and 2024-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gratiot 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 financial statement. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2024-002 and 2024-003.

Gratiot County's Response to Findings and Corrective Action Plan

Government Auditing Standards require the auditor to perform limited procedures on Gratiot County's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs and corrective action plan. Gratiot County's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity'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.

Yeo & Yeo, P.C.

Alma, Michigan
May 5, 2025



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Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and County Commissioners
Gratiot County
Ithaca, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Gratiot County's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Gratiot County's major federal programs for the year ended September 30, 2024. Gratiot County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Gratiot County's basic financial statements include the operations of the Gratiot County Road Commission, which expended \$2,583,363 in federal awards, which is not included in the schedule during the year ended September 30, 2024. Our audit, described below, did not include the operations of the Gratiot County Road Commission because the Gratiot County Road Commission engaged other auditors and an audit in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) was not required based on the nature of the federal award contracts.

In our opinion, Gratiot County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Gratiot County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Gratiot County's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or agreements applicable to Gratiot County's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Gratiot County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Gratiot County's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Gratiot County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Gratiot County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Gratiot County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 Gratiot County, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise Gratiot County's basic financial statements. We issued our report thereon dated May 5, 2025, 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 the 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.

Yeo & Yeo, P.C.

Alma, Michigan
May 5, 2025

Gratiot County
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2024

Federal Grantor Pass-Through Grantor Program Title	Assistance Listing Number	Pass-Through Grantors Number	Approved Grant Award	Federal Expenditures	Amount Transferred to Subrecipients
U.S. Department of Transportation					
Passed through Michigan Department of Transportation Airport Improvement Program	20.106	B-26-0003-2322	\$ 782,186	\$ 47,806	\$ -
Passed through Michigan State Court Administrative Office National Priority Safety Programs	20.616	2024-ID-05-IG	95,000	94,650	-
Passed through Michigan Department of State Police Interagency Hazardous Materials Public Sector Training and Planning Grant	20.703	693JK32240063HMEP	3,810	1,950	-
Total U.S. Department of Transportation				<u>144,406</u>	<u>-</u>
U.S. Department of the Treasury					
Direct award COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	1505-0271	7,907,634	2,283,270	2,144,402
U.S. Department of Health and Human Services					
Passed through State Department of Office on Services to the Aging and Region 7 Area Agency on Aging Aging Cluster:					
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	20191841	73,492	73,492	-
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	20191841	155,508	155,508	-
Nutrition Services Incentive Program	93.053	20191841	35,460	26,596	-
Total Aging Cluster				<u>255,596</u>	<u>-</u>
Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	93.048	90-MPO218-03-00	2,623	2,623	-
National Family Caregiver Support, Title III, Part E	93.052	20191841	16,004	16,004	-
State Health Insurance Assistance Program	93.324	90SA0073-01-00	6,642	6,642	-
Medical Assistance Program	93.778	N/A	11,548	11,548	-
Medicare Enrollment Assistance Program	93.071	N/A	2,400	2,400	-
Passed through Michigan Department of Human Services Child Support Enforcement	93.563	CSFOC17-29001	607,331	439,901	-
Child Support Enforcement	93.563	CSPA24-29002	96,584	76,187	-
Child Support Enforcement	93.563	N/A	59,974	59,974	-
				<u>576,062</u>	<u>-</u>
Total U.S. Department of Health and Human Services				<u>870,875</u>	<u>-</u>
U.S. Department of Homeland Security					
Passed through Michigan Department of Natural Resources Boating Safety Financial Assistance	97.012	70Z02323MO0000516	4,000	2,880	-
Passed through Michigan Department of State Police Emergency Management Performance Grant	97.042	EMC-2024-EP-05005	4,398	4,398	-
Passed through City of Lansing Homeland Security Grant Program	97.067	R1-2021-80-0068	9,137	9,137	-
Total U.S. Department of Homeland Security				<u>16,415</u>	<u>-</u>
				<u>\$ 3,314,966</u>	<u>\$ 2,144,402</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Gratiot County
Notes to the Schedule of Expenditures of Federal Awards
September 30, 2024

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Gratiot County, Michigan (the “County”) under programs of the federal government for the year ended September 30, 2024. The information in this schedule 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). 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.

Note 2 – Summary of Significant Accounting Policies

Expenditures

Expenditures on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Indirect Cost Rate

Gratiot County has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Reconciliation to Financial Statements

The following is a reconciliation between the financial statements and the Schedule of Expenditures of Federal Awards.

Federal grants revenue - governmental funds	\$ 3,246,011
Federal grants revenue - component units	47,806
Less: prior year deferred inflow of resources	(75,391)
Add: current year deferred inflow of resources	96,540
Federal expenditures	<u>\$ 3,314,966</u>

Note 4 – Subrecipients

Payments were made to subrecipients as follows:

Program Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Subrecipient	Current Year Cash Transferred to Subrecipient
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	1505-0271	City of Alma	\$ 274,000
			City of Ithaca	317,894
			Elba Township	50,000
			Fulton Township	46,905
			Gratiot County Child Advocacy	135,000
			Gratiot County Road Commission	78,458
			Hamilton Township	93,629
			Heroes Center	92,392
			Seville Township	150,980
			St. Louis Area Fire Department	76,641
			Village of Ashley	151,365
			Village of Breckenridge	366,883
			Village Of Perrinton	133,510
			Washington Township	56,494
			Wheeler Township	120,251
				<u>\$ 2,144,402</u>

Gratiot County
Schedule of Findings and Questioned Costs
September 30, 2024

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are 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 that are not considered to be material weaknesses? yes 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 §200.516(a)? yes no

Identification of major programs:

Assistance Listing Number(s)

Name of Federal Program or Cluster

21.027

Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

Gratiot County
Schedule of Findings and Questioned Costs
September 30, 2024

Section II – Government Auditing Standards Findings

Finding 2024-001, 2023-001 and 2022-002

Material Weakness

Audit Adjustments Required

Criteria: Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition: In total, more than thirty audit adjustments were required to properly state the financial statements. The County uses approximately 2,300 general ledger accounts of which over 95 required adjustments. One of the audit adjustments was material to the financial statements.

Cause: Adjustments were required for varying reasons but are generally the result of a breakdown of internal controls within the financial reporting process.

The following encompasses the cause for the material adjustment:

1. A financing arrangement was not properly accounted for during the fiscal year in a component unit fund. The County records the fund on the modified accrual basis within the general ledger. As such, prior to the audit adjustment, capital outlay expenditures and other financing sources were understated by approximately \$3.3 million. On the full accrual statement, this equated to capital assets and long-term liabilities being understated by approximately \$3.3 million.

Effect: The financial statements would have been misstated had audit procedures not been applied.

Recommendations: We recommend the County evaluate the process in place to reconcile financial information for year end reporting. Additional reconciliations and review and approval of those reconciliations would improve the completeness and accuracy of the information reported. We further recommend that County personnel involved in the financial reporting process obtain continuing education and stay abreast of changes within the industry. Lastly, the makeup of those involved in the financial recording and reporting process should be evaluated to ensure the team in place can adequately handle the amount of work required to account for the transactions of the County. The County may need to allocate additional resources to ensure integrity and reliability of the County's financial reporting activities.

Views of responsible officials:

Management is in agreement with the finding.

Corrective Action Plan:

See attached corrective action plan.

Gratiot County
Schedule of Findings and Questioned Costs
September 30, 2024

Finding 2024-002

Material Weakness and Material Noncompliance

Misappropriation of Assets

Criteria: Local government officials have a legal and ethical obligation to manage public funds and resources responsibly. This includes ensuring that taxpayer money is spent efficiently, transparently, and in accordance with applicable laws and regulations.

Condition: During the course of the audit, fictitious invoices were identified that were processed and paid out of the County's accounts payable system. These invoices, totaling over \$23,000, were submitted by a vendor that is not legitimate.

Cause: The issue appears to stem from a breakdown in the accounts payable process, particularly in vendor setup and invoice approval. The finance department did not establish adequate checks and balances, resulting in insufficient oversight within the invoice approval process.

Effect: The payment of fictitious invoices resulted in the misappropriation of public funds, potentially exposing the County to financial loss and reputational damage. Additionally, these transactions constitute fraudulent activity, which could have legal ramifications for the involved parties.

Recommendations: We recommend a full investigation into the fictitious payments and those involved in processing the fictitious invoices. Beyond an investigation, we recommend that internal controls be evaluated and strengthened within the accounts payable process, specifically in regard to vendor setup and invoice review and approval.

Views of responsible officials:

Management is in agreement with the finding.

Corrective Action Plan:

See attached corrective action plan.

Finding 2024-003

Material Weakness and Noncompliance

Audit Not Filed Timely

Criteria: Michigan PA 2 of 1968 (MCL 141.424) requires local units to complete and file an audit annually within six months of the local unit's fiscal year end.

Condition: The County filed the annual audit after the required deadline.

Cause: During the year, the County experienced a change in reporting entity by which the Gratiot County Community Airport Authority became a component unit of the County, and the financial oversight and accounting was taken over by the County's administrative office. There was a delay in obtaining information related to a capital project grant for this component unit. It was unclear what portion of the grant in question might be federal in nature. Until information could be confirmed with the Michigan Department of Transportation Office of Aeronautics the completeness of the schedule of expenditures of federal awards was in question.

Gratiot County
Schedule of Findings and Questioned Costs
September 30, 2024

Effect: The County was unable to file the annual audit timely.

Recommendations: County administration should ensure a comprehensive understanding of the financial complexities associated with new initiatives, including the applicable funding mechanisms. In cases where grant funding is utilized, timely and effective communication with funders is essential to ensure accurate financial reporting and proper accounting of all transactions.

Views of responsible officials: Management is in agreement with the finding.

Corrective Action Plan: See attached corrective action plan.

Section III – Federal Award Findings

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2024.

Gratiot County
Summary Schedule of Prior Audit Findings
September 30, 2024

Section IV – Prior Audit Findings

There was the following *Government Auditing Standards* finding for the year ended September 30, 2023:

Finding 2023-002
Material Weakness
Audit Adjustments Required

Criteria: Management is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Current year status: See finding 2024-001.

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2023.

**Gratiot County
Corrective Action Plan
September 30, 2024**

**GRATIOT COUNTY
DEPUTY ADMINISTRATOR**



**Gratiot County
Corrective Action Plan
September 30, 2024**

Finding 2024-001, 2023-001 and 2022-002

Until February 2025, the Controller position was shared with the Administrator. In February of 2025, The Woodhill Group, LLC was retained to provide interim Controller duties. A thorough review of the accounts has been performed and many accounts/funds no longer needed have been eliminated to ease review of the accounts during the year. It is planned that a full-time Controller will be hired by the end of 2025. This will allow for review of financial records in a timely manner and audit adjustments prepared prior to the beginning of the external annual audit.

Finding 2024-002

Upon discovery of the fictitious invoices, the Administrator/Controller resigned from the County. The County has initiated a Michigan State Police investigation and retained Yeo & Yeo to perform a forensic audit of the last ten years transactions. The County has retained The Woodhill Group, LLC to provide interim Controller duties. This includes preparing the bank reconciliation for the bank account for accounts payable. When a full-time Controller is hired, further separation of duties for accounts payable preparation and review will be initiated.

Finding 2024-003

The hiring of a full-time Controller by the end of 2025 will allow for the experience and time necessary to properly identify the requirements for reporting applicable funding mechanisms. This will allow for the timely submission of future audits.

Prepared by MaryAnn Kornexl, CPA The Woodhill Group, LLC serving as Interim Controller



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