

Gratiot County
Single Audit Report
September 30, 2018



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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, 2018, and the related notes to the financial statements, which collectively comprise Gratiot County's basic financial statements, and have issued our report thereon dated March 14, 2019. 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.

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) 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 Gratiot County's internal control. Accordingly, we do not express an opinion on the effectiveness of Gratiot 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 to be material weaknesses.

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 2018-001 and 2018-002 to be material weaknesses.

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 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 or other matters that are required to be reported under *Government Auditing Standards*, this instance is reported as item 2018-002.

Gratiot County's Response to Findings and Corrective Action Plan

Gratiot County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Gratiot 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 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
March 14, 2019



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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

We have audited Gratiot County's compliance with the types of compliance requirements described 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, 2018. Gratiot County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. 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.

Gratiot County's basic financial statements include the operations of the Gratiot County Road Commission, which received \$374,858 in federal awards which is not included in the schedule during the year ended September 30, 2018. 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.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Gratiot 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 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). 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 Gratiot 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 Gratiot County's compliance.

Opinion on Each Major Federal Program

In our opinion, Gratiot 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 September 30, 2018.

Report on Internal Control Over Compliance

Management of Gratiot 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 Gratiot 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 Gratiot 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.

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, 2018, and the related notes to the financial statements, which collectively comprise Gratiot County's basic financial statements. We issued our report thereon March 14, 2019 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 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 expenditure 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
March 14, 2019

Gratiot County
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Pass - Through Grantors Number	Approved Grant Award	Federal Expenditures
U.S. Department of Transportation				
Passed through Michigan Supreme Court State Court Administrative Office Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL-18-05	\$ 204,000	\$ 204,000
Passed through Michigan Department of State Police Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	HM-HMP-0558-16-01-00	1,000	41
Total U.S. Department of Transportation			<u>205,000</u>	<u>204,041</u>
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 Special Programs for the Aging Title III, Part D, Disease Prevention and Health Promotion Services	93.043	20181841	2,778	1,389
Aging Cluster: Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	20181841	73,641	73,641
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	20181841	86,539	86,539
Nutrition Services Incentive Program	93.053	20181841	34,503	34,503
Total Aging Cluster			<u>194,683</u>	<u>194,683</u>
Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	93.048	90-MPO218-03-00	1,104	1,104
National Family Caregiver Support, Title III, Part E	93.052	20181841	9,007	9,007
State Health Insurance Assistance Program	93.324	90SA00-0073-01-00	7,640	5,155
Passed through Michigan Department of Human Services Child Support Enforcement	93.563	CSFOC17-29001	522,694	342,056
Child Support Enforcement	93.563	CSPA17-29002	81,004	71,589
Child Support Enforcement	93.563	N/A	63,478	63,478
			<u>667,176</u>	<u>477,123</u>
Passed through State Department of Office on Services to the Aging and Region 7 Area Agency on Aging Medical Assistance Program	93.778	N/A	5,253	5,253
Total U.S. Department of Health and Human Services			<u>887,641</u>	<u>693,714</u>
U.S. Department of Homeland Security				
Passed through Michigan Department of Natural Resources Boating Safety Financial Assistance	97.012	N/A	6,000	1,726
Passed through Michigan Department of State Police Emergency Management Performance Grant	97.042	EMC-2017-EP-00001	10,858	-
Emergency Management Performance Grant	97.042	EMC-2018-EP-00002	10,858	8,395
			<u>21,716</u>	<u>8,395</u>
Passed through City of Lansing Homeland Security Grant Program	97.067	R1-2015-80-0032	19,654	382
Homeland Security Grant Program	97.067	R1-2016-80-0073	19,654	10,778
Homeland Security Grant Program	97.067	R1-2017-80-0015	19,654	12,888
			<u>58,962</u>	<u>24,048</u>
Total U.S. Department of Homeland Security			<u>86,678</u>	<u>34,169</u>
Total Federal Financial Assistance			<u>\$ 1,179,319</u>	<u>\$ 931,924</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, 2018

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, 2018. 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.

	Governmental Funds
Intergovernmental - federal/state revenue	\$ 3,739,791
Less: state revenue	(2,817,156)
Less: prior year deferred inflow of resources	(65,747)
Add: current year deferred inflow of resources	75,036
Federal expenditures	\$ 931,924

Note 4 – Subrecipients

No amounts were provided to subrecipients.

Gratiot County
Schedule of Findings and Questioned Costs
September 30, 2018

Section 1 – 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:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
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

Gratiot County
Schedule of Findings and Questioned Costs
September 30, 2018

Section II – Government Auditing Standards Findings

Finding 2018-001, 2017-001, 2016-001, 2015-001 and 2014-001
Material Weakness – Audit Entries and Financial Statement Preparation

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

Condition: Adjusting journal entries, including a restatement of the governmental activities and component unit net positions, were required so the financial statements were not materially misstated. Of these restatements, material adjustments were required to reclassify capital assets from construction in progress to capital assets placed in service. The responsibility for closing the general ledger at year-end, identifying and accounting for capital asset activity, and posting necessary accruals has historically not been centralized or monitored. The County hired a financial administrator in recent years who was able to make some strides in centralizing the year-end close out. Procedures were put in place for independent review of journal entries, however; some journal entries were requested by other departments. Fourteen journal entries were proposed throughout the audit process, not including those adjustments to capital assets to correct a prior year error. This was a material weakness in the prior year.

Cause: The root cause for the continued material weakness related to audit adjustments and financial statement preparation is that the County's financial administrator has been with the County for less than two years, making it a challenge to fully grasp all of the financial implications of the County's operations, including what expenditures are typically being considered for capitalization by all departments of the County. Additionally, the financial administrator lacks some knowledge of governmental accounting practices, but has demonstrated an eagerness to learn more, and would certainly benefit from additional training. The County does not have a systematic monthly or quarterly closing process, but did take measures to implement an annual closing process. Furthermore, it is apparent that the finance department does not have the full support of all departments when it comes to freely sharing information, and working towards a more centralized accounting system.

Effect: The County continues to have several internal control deficiencies identified as part of its annual audit. While some improvements in the system were observed, financial reporting that occurs throughout the year, which is used to make decisions with, is likely not as accurate as it could be. Because internal controls over financial recording and reporting are lacking, the risk of fraud, abuse, and noncompliance occurring is increased. Many processes within the County lack efficiency and could be streamlined. Lastly, external funding sources are less likely to grant awards to entities that have inadequate systems of internal controls. Departments at the Federal level of government have the ability to designate local units of government as high risk. If the County was designated as being high risk, it could impact the amount of federal funding awarded.

Gratiot County
Schedule of Findings and Questioned Costs
September 30, 2018

Recommendations: We recommend that the County invest in training for the financial administrator, develop a documented annual financial close out process, and further centralize the accounting function within the County.

**Views of
responsible
officials:**

Management is in agreement with the finding. See the corrective action plan on page 13.

Finding 2018-002, 2017-002, 2016-002, 2015-002 and 2014-002
Material Weakness and Material Noncompliance – Federal Award Accounting

Criteria: Local units of government are required to have in place internal controls over recording, processing, and summarizing accounting data related to federal awards. Additionally, the State of Michigan requires the use of a mandated chart of accounts.

Condition: The County has historically relied on its independent external auditors to assist in the summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the County historically placed reliance on its external auditors, who cannot by definition be considered a part of the County's internal controls. During the current year, the County has made improvements in tracking federal awards, however; the County is still not in compliance with the chart of accounts structure mandated by the State of Michigan. The County does not consistently use the proper general ledger accounts for federal revenue as defined in the Michigan Department of Treasury "Uniform Chart of Accounts for Counties and Local Units of Governments". The County has also not identified separate accounts for recording federal expenditures for all grant awards. This was a material weakness in the prior year.

Cause/Effect: The County has not previously had personnel in place with the ability to review the chart of accounts and assess the required changes. Because the chart of accounts used by the County is out of date and does not readily identify federal activity, monitoring and reconciling are more difficult.

Recommendations: We recommend that federal revenues be consistently recorded in the correct general ledger account numbers as defined by the Michigan Department of Treasury, and that expenditure accounts be separately identified for federal expenditures with the general ledger account number.

**Views of
Responsible
officials:**

Management is in agreement with the finding. See the corrective action plan on page 13.

Gratiot County
Schedule of Findings and Questioned Costs
September 30, 2018

Section III – Federal Award Findings

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2018.

Gratiot County
Summary Schedule of Prior Audit Findings
September 30, 2018

Section IV – Prior Audit Findings

There were the following *Government Auditing Standards* findings for the year ended September 30, 2017:

Finding 2017-001, 2016-001, 2015-001 and 2014-001

Material Weakness – Audit Entries and Financial Statement Preparation

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

Status: Continues to be a finding in the current year, see current year finding 2018-001.

Finding 2017-002, 2016-002, 2015-002 and 2014-002

Material Weakness and Material Noncompliance – Federal Award Accounting

Criteria: Local units of government are required to have in place internal controls over recording, processing, and summarizing accounting data related to federal awards.

Status: Continues to be a finding in the current year, see current year finding 2018-002.

Finding 2017-003

Material Weakness and Material Noncompliance – Expenditures in Excess of Budget

Criteria: Michigan Common Law (MCL) 141.437 requires the legislative body of the County to amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined.

Status: Finding corrected.

Finding 2017-004

Material Weakness and Material Noncompliance – Final Budget Approval

Criteria: Michigan Common Law (MCL) 141.437 requires the legislative body of the County to amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. Final budget amendments are to be made prior to the end of the fiscal year.

Status: Finding corrected.

**Gratiot County
Corrective Action Plan
September 30, 2018**



Local Audit and Finance Division
Michigan Department of Treasury
P O Box 30728
Lansing, Michigan 48847

RE: Corrective Action Plan, Gratiot County – 2018-CAP

Dear Sir/Madam:

I am writing to relay the corrective action plan (CAP) for the three issues identified on the FYE 9/30/2018 Gratiot County Auditing Procedures Report (APR). Other employees may be involved in carrying out the CAP. However, as County Administrator, I will be the contact person ultimately responsible.

Audit Finding 2018-001 Audit Entries and Financial Statement Preparation.

Condition – Adjusting journal entries, including a restatement of the governmental activities and component unit net positions, were required so the financial statements were not materially misstated.

Corrective Action Plan – Training of all County employees, including the Financial Administrator, will continue to be a priority for Gratiot County. During the fiscal year the County's Financial Administrator took part in multiple training sessions, including one offered by Yeo & Yeo. Training sessions were also provided by the Financial Administrator to all County employees involved in financial processes to increase awareness of County policies and accounting best practices and requirements. Relationships have been built by the Financial Administrator with neighboring Counties, thus creating a network of resources.

Gratiot County CAP
pg. 1

**Gratiot County
Corrective Action Plan
September 30, 2018**

A year end closeout procedure has been drafted by County. Steps are underway to update the Financial Policy to include sound monthly and quarterly procedures also.

The County Administrator will continue to maximize opportunities to further centralize accounting functions the County within the limitations inherent in an environment of independent elected officials. We will capitalize on other opportunities as they arise.

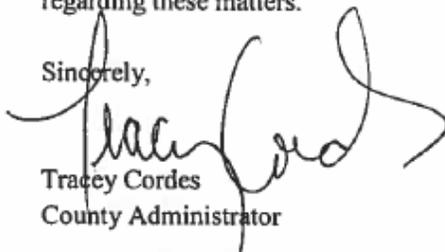
Audit Finding 2018-002 Federal Award Accounting – Material Weakness.

Condition – The County has historically relied on its independent external auditors to assist in the summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the County historically placed reliance on its external auditors, who cannot by definition be considered a part of the County’s internal controls. During the current year, the County has made improvements in tracking federal awards, however; the County is still not in compliance with the Chart of Accounts structure mandated by the State of Michigan. The County does not consistently use the proper general ledger accounts for federal revenue as defined in the Michigan Department of Treasury “Uniform Chart of Accounts for Counties and Local Units of Governments.” The County has also not identified separate accounts for recording federal expenditures for all grant awards. This was a material weakness in the prior year.

Corrective Action Plan – During December of 2018, due to a retirement, the County’s central Financial Services Department absorbed the financial reporting functions of the Commission on Aging (COA). Reconfiguring COA’s financial reporting will be key to correcting this audit finding. Currently there is a subsidiary ledger that acts as a crosswalk from the County’s reporting and what is required by the Area Agency. The Financial Administrator will ensure that the County’s accounting coding will be updated to ensure compliance with the Chart of Accounts by July 1st, 2019.

Please feel free to contact me at (989)875-5282 should you have any questions regarding these matters.

Sincerely,



Tracey Cordes
County Administrator