

County of  
Muskegon,  
Michigan



Year Ended  
September 30,  
2011

Single Audit Act  
Compliance

# COUNTY OF MUSKEGON, MICHIGAN

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**INDEPENDENT AUDITORS' REPORT ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

May 15, 2012

Honorable Members of the  
Board of Commissioners  
of the County of Muskegon, Michigan  
Muskegon, 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 Muskegon, Michigan**, as of and for the year ended September 30, 2011, which collectively comprise the basic financial statements, and have issued our report thereon dated March 30, 2012. Our audit report includes a reference to other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County of Muskegon, Michigan's 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, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.



COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2011

Federal Agency / Pass-through Grantor / Program or Cluster Title	CFDA Number	Pass-through Grantor Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>			
Direct programs:			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	-n/a-	\$ 11,255
National School Lunch Program	10.555	-n/a-	17,381
Law Enforcement Cooperative Agreement	10.unk	-n/a-	2,000
Passed through the Michigan Department of Community Health:			
Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	-n/a-	1,166,579
Passed through the Michigan Department of Community Health:			
Supplemental Nutrition Assistance Program	10.561	-n/a-	<u>45,282</u>
<b>Total U.S. Department of Agriculture</b>			<u>1,242,497</u>
<b>U.S. Department of Housing and Urban Development</b>			
Direct Programs:			
Neighborhood Stabilization Program	14.218	-n/a-	144,407
HUD Supportive Housing Grant #1	14.235	-n/a-	110,202
HUD Supportive Housing Grant #2	14.235	-n/a-	14,053
HUD Supportive Housing Grant #3	14.235	-n/a-	19,732
HUD Supportive Housing Grant #4	14.235	-n/a-	<u>20,275</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>308,669</u>
<b>U.S. Department of Justice</b>			
Direct programs:			
State Criminal Alien Assistance Program	16.606	2010-AP-BX-037	4,011
Project Safe Neighborhoods	16.609	2008-GP-CX-0036	899
Bulletproof Vest Partnership	16.579	-n/a-	2,925
Jail Screening and Assessment	16.753	-n/a-	130,649
ARRA - Edward Byrne Memorial Justice Grant	16.804	2009-SB-B9-1824	120,321 **
ARRA - Edward Byrne Memorial Competitive Grant	16.808	2009-SC-B9-0047	243,542
Passed through the Michigan Department of Management & Budget:			
Crime Victim Assistance	16.575	20484-14-V-09	71,683
Passed through Grand Valley State University:			
Project Safe Neighborhoods	16.609	2010-GP-BX-0060	21,000
Passed through the Michigan Department of Community Health:			
WEMET Ottawa County	16.738	2010-DJ-BX-0003	<u>34,911 **</u>
<b>Total U.S. Department of Justice</b>			<u>629,941</u>

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2011

Federal Agency / Pass-through Grantor / Program or Cluster Title	CFDA Number	Pass-through Grantor Number	Federal Expenditures
<b>U.S. Department of Labor</b>			
Passed through the Workforce Development Agency:			
Wagner Peyser 7(A)	17.207	ES207561055A26	\$ 381,806
ARRA - Employment Services MI-NCRC	17.207	ES175680855A26	36,318
ARRA - Wagner Peyser RCAR	17.207	-n/a-	335
ARRA - Wagner Peyser ECAR	17.207	ES175680855A26	3,540
ARRA - Reemployment	17.207	ES17568-08-55	26,007
ARRA - Reemployment TAA Case Mgmt	17.207	ES17568-08-55	30,027
Trade Adjustment Assistance Program	17.245	-n/a-	2,558,633
Trade Case Management	17.245	-n/a-	140,600
Workforce Investment Act (WIA) Cluster:			
WIA Local Administration	17.258	AA202001055A26	50,596 *
WIA Local Administration	17.259	AA202001055A26	54,181 *
WIA Local Administration	17.278	AA202001055A26	67,554 *
WIA Adult	17.258	AA202001055A26	491,221 *
WIA Youth	17.259	AA202001055A26	668,283 *
WIA Dislocated Worker	17.278	AA202001055A26	934,884 *
WIA Rapid Response Incumbent Worker	17.260	AA202001055A26	32,500 *
ARRA - WIA DW NEG-West MI	17.260	EM-19537-10-60-A-26	1,075,936 *
ARRA - WIA SWA (Muskegon Addtl Adult)	17.258	MAA08ARRA	134,418 *
ARRA - WIA SWA (Muskegon Addtl Adult)	17.259	MAA08ARRA	143,941 *
ARRA - WIA SWA (Muskegon Addtl Adult)	17.260	MAA08ARRA	179,468 *
WIA SWA Youth	17.258	AA202001055A26	681 *
WIA SWA Youth	17.259	AA202001055A26	729 *
WIA SWA Youth	17.278	AA202001055A26	909 *
WIA SWA MWA Service Center Ops	17.258	AA202001055A26	2,176 *
WIA SWA MWA Service Center Ops	17.259	AA202001055A26	2,331 *
WIA SWA MWA Service Center Ops	17.278	AA202001055A26	2,906 *
WIA SWA TANF replacement	17.258	AA202001055A26	64,637 *
WIA SWA TANF replacement	17.259	AA202001055A26	69,216 *
WIA SWA TANF replacement	17.278	AA202001055A26	86,299 *
ARRA - WIA SWA ECAR	17.258	AA171280855	10,330 *
ARRA - WIA SWA ECAR	17.259	AA171280855	11,062 *
ARRA - WIA SWA ECAR	17.260	AA171280855	13,791 *
ARRA - WIA SWA Efficiency	17.258	AA171280855	13,895 *
ARRA - WIA SWA Efficiency	17.259	AA171280855	14,880 *
ARRA - WIA SWA Efficiency	17.260	AA171280855	18,553 *
ARRA - WIA SWA RCAR	17.258	-n/a-	1,984 *
ARRA - WIA SWA RCAR	17.259	-n/a-	2,124 *
ARRA - WIA SWA RCAR	17.260	-n/a-	2,649 *
ARRA - WIA SWA (Addtl AD & DW)	17.258	AA171280855	47,330 *
ARRA - WIA SWA (Addtl AD & DW)	17.259	AA171280855	50,684 *
ARRA - WIA SWA (Addtl AD & DW)	17.260	AA171280855	63,193 *
ARRA - WIA Youth	17.259	AA171280855	35,115 *
WIA SWA MI NCRC	17.258	AA171280855	590 *
WIA SWA MI NCRC	17.259	AA171280855	632 *
WIA SWA MI NCRC	17.260	AA171280855	788 *
ARRA - WIA Dislocated Worker	17.260	AA171280855	42,894 *
ARRA - WIA Local Administration	17.258	-n/a-	2,545 *
ARRA - WIA Local Administration	17.259	-n/a-	2,725 *
ARRA - WIA Local Administration	17.260	-n/a-	3,397 *
Passed through Kalamazoo/St. Joseph Michigan Works!:			
ARRA - OJT NEG	17.260	-n/a-	55,793 *
Passed through Grand Valley State University:			
WIRED Grant	17.261	-n/a-	61,401
<b>Total U.S. Department of Labor</b>			<u>7,696,487</u>

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2011

Federal Agency / Pass-through Grantor / Program or Cluster Title	CFDA Number	Pass-through Grantor Number	Federal Expenditures
<b>U.S. Department of Transportation</b>			
Direct program:			
Small Community Air Service Development Grant	20.930	-n/a-	\$ 237,012
Passed through the Michigan Department of Transportation/ARERO:			
Airport Improvement Program	20.106	07-0537	99
Passed through the Michigan Department of Transportation (MDOT):			
Federal Transit Section 5317 New Freedom	20.521	2007-0264/Z16	100,000
Federal Transit Cluster:			
Federal Transit Section 5309 - Capital Grants	20.500	MI-03-0228	29,913
Federal Transit Section 5309 - Capital Grants	20.500	MI-04-0069	2,083
Federal Transit Section 5307 - Formula Grants	20.507	MI-90-X043	29,466
Federal Transit Section 5307 - Formula Grants	20.507	MI-90-X365	301,739
Federal Transit Section 5307 - Formula Grants	20.507	MI-90-X388	13,366
Federal Transit Section 5307 - Formula Grants	20.507	MI-90-X443	66,881
Federal Transit Section 5307 - Formula Grants	20.507	MI-90-X497	2,285
Federal Transit Section 5307 - Formula Grants	20.507	MI-90-X558	23,091
Federal Transit Section 5307 - Formula Grants	20.507	MI-90-X596	41,601
Federal Transit Section 5307 - Formula Grants	20.507	MI-90-X624	928,960
Federal Transit Section 5307 - Formula Grants	20.507	MI-90-X636	200,000
Federal Transit Section 5307 - CMAQ	20.507	MI-95-X055	45,627
Federal Transit Section 5307 - CMAQ	20.507	MI-95-X072	160,000
ARRA - Federal Transit Section 5307	20.507	MI-96-X010	106,257
Passed through the Michigan Department of Highway Safety:			
Highway Safety Cluster:			
Safe Communities	20.600	PT-11-34	39,329
Safe Communities	20.601	PT-11-16	2,821
Safe Communities	20.602	PT-11-34	6,803
Passed through the Michigan Department of Highway Safety:			
LEPC Right to Know	20.703	-n/a-	<u>3,526</u>
<b>Total U.S. Department of Transportation</b>			<u><b>2,340,859</b></u>
<b>U.S. Environmental Protection Agency</b>			
Passed through Michigan Department of Environmental Quality:			
ARRA - Sullivan/Laketon Stations	66.458	5377-01	82,713
Environmental Quality Operator Certification	66.471	-n/a-	440
Environmental Quality Great Lakes Beach Water Monitoring	66.472	-n/a-	<u>12,082</u>
<b>Total U.S. Environmental Protection Agency</b>			<u><b>95,235</b></u>
<b>U.S. Department of Energy</b>			
Passed through Michigan Department of Labor and Economic Growth:			
ARRA - Energy Efficiency & Conservation	81.128	BES-10-123	<u>254,649</u>

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2011

Federal Agency / Pass-through Grantor / Program or Cluster Title	CFDA Number	Pass-through Grantor Number	Federal Expenditures
<b>U.S. Department of Health and Human Services</b>			
Direct programs:			
Homeless Project	93.150	2X06SM060023-08	\$ 43,500
Suicide Prevention	93.243	1U79SM059190-02	13,936
ARRA - Strengthening Communities	93.711	903N0040	138,588
Passed through Michigan Department of Community Health:			
Emergency Service Focus A	93.069	2011-1172-00	140,722
Pandemic Flu - Phase II	93.069	2011-1172-00	18,185
Muskegon Environmental Contamination Health Assessment	93.161	2011-1172-00	119,365
Immunization Cluster:			
Immunizations-IAP Source #1	93.268	2011-1172-00	58,887
Immunizations-IAP Source #2	93.268	2011-1172-00	3,099
Immunizations-IAP Source #3	93.268	2011-1172-00	17,769
Immunizations-IAP Source #4	93.268	2011-1172-00	2,893
Immunizations-VFC Provider Site Visits	93.268	2011-1172-00	5,400
Vaccines for Children	93.268	2011-1172-00	252,531
ARRA - Immunization	93.712	2011-1172-00	17,412
Cancer-Family Planning Coordination Source #1	93.283	2011-1172-00	4,167
Cancer-Family Planning Coordination Source #2	93.283	2011-1172-00	1,388
MI Colorectal Cancer Screen/Plan Source #1	93.283	2011-1172-00	9,500
MI Colorectal Cancer Screen/Plan	93.283	2011-1172-00	6,300
Breast & Cervical Cancer Coord. Source #1	93.283	2011-1172-00	44,305
Breast & Cervical Cancer Coord. Source #2	93.283	2011-1172-00	14,768
Michigan Home Visiting	93.505	2011-1172-00	8,000
ARRA - Tobacco	93.723	2011-1172-00	27,747
Medicaid Outreach	93.778	2011-1172-00	7,622
OBRA-PASSAR	93.778	2011-1172-00	27,438
CSHCS-Care Coordination Source #2	93.778	2011-1172-00	495
CSHCS-Care Coordination Source #3	93.778	2011-1172-00	2,387
CSHCS-Outreach & Advocacy Source #1	93.778	2011-1172-00	73,090
Childhood Lead Poisoning Prevent. Source #2	93.778	2011-1172-00	13,909
HIV/AIDS Prevention Source #1	93.940	2011-1172-00	25,013
HIV/AIDS Prevention Source #2	93.940	2011-1172-00	75,039
Wraparound Services	93.958	10B1MICMHS	32,557
Community Recovery Services	93.958	10B1MICMHS	66,403
IPLT Enhancement	93.958	10B1MICMHS	18,269
PTMO	93.958	10B1MICMHS	38,979
STD Control Source #1	93.991	2011-1172-00	50,692
STD Control Source #2	93.991	2011-1172-00	19,485
Maternal Child Health	93.994	2011-1172-00	148,402
FIMR Case Extractions	93.994	2011-1172-00	5,400
SIDS Support & FIMR Case Extractions	93.994	2011-1172-00	875
CSHCS-Care Coordination Source #1	93.994	2011-1172-00	15,663
CSHCS-Outreach & Advocacy Source #2	93.994	2011-1172-00	31,241
Childhood Lead Poisoning Prevent. Source #1	93.994	2011-1172-00	13,424
Immunizations-MCH	93.994	2011-1172-00	17,424
Passed through Workforce Development Agency:			
Temporary Assistance for Needy Families (TANF)	93.558	G-1102MITANF	2,373,158
TANF Support Services	93.558	G-1102MITANF	9,000
Passed through Michigan Department of Human Services:			
Prosecutor Cooperative (IV-D Incentive)	93.563	CSPA-10-61002	217,534
Child Support Incentives	93.563	-n/a-	249,008
Child Support Enforcement (IV-D CRP contract)	93.563	CSFOC-10-61001	1,672,832
Passed through Lakeshore Coordinating Council:			
Substance Abuse Prevention	93.959	-n/a-	98,873
Law Enforcement Compliance & Synar	93.959	-n/a-	2,400
<b>Total U.S. Department of Health and Human Services</b>			<b>6,255,074</b>

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2011

Federal Agency / Pass-through Grantor / Program or Cluster Title	CFDA Number	Pass-through Grantor Number	Federal Expenditures
Executive Office of the President Passed through Ottawa County: Domestic Highway Enforcement	95.001	-n/a-	\$ 38
U.S. Department of Homeland Security Direct program: TSA Law Enforcement Officer Reimbursable Agreement	97.118	-n/a-	24,002
Passed through West Michigan Shoreline Regional Development Commission: Homeland Security Grant Program	97.067	-n/a-	109,372
Total U.S. Department of Homeland Security			133,374
Total Expenditures of Federal Awards			\$ 18,956,823

\* These awards comprise the Workforce Investment Act cluster, which totals \$4,457,820.

\*\* These awards comprise the JAG Program cluster, which totals \$155,232.

See notes to schedule of expenditures of federal awards.

# COUNTY OF MUSKEGON, 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 Muskegon, Michigan (the "County") under programs of the federal government for the year ended September 30, 2011. 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 assets or cash flows of the County.

The County's reporting entity is defined in Note 1 of the County's Comprehensive Annual Financial Report. The County's financial statements include the operations of the Muskegon County Road Commission, a discretely presented component unit, who received federal awards that are not included in the Schedule for the year ended September 30, 2011, 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.

# COUNTY OF MUSKEGON, MICHIGAN

## Notes to Schedule of Expenditures of Federal Awards

### 3. SUBRECIPIENTS

The County administers certain federal awards programs through subrecipients. Those subrecipients are not considered part of the County's reporting entity. Of the federal expenditures presented in the Schedule, the County provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
Supplemental Nutrition Assistance Program	10.561	\$ 30,510
Neighborhood Stabilization Program	14.218	143,000
Jail Screening and Assessment	16.753	80,320
ARRA - Edward Byrne Memorial Justice Grant	16.804	92,336
ARRA - Edward Byrne Memorial Competitive Grant	16.808	110,315
Wagner Peyser	17.207	374,008
Trade Adjustment Assistance	17.245	219,179
Workforce Investment Act Cluster (WIA)	17.258/.259/ .260/.278	2,231,881
Temporary Assistance to Needy Families (TANF)	93.558	2,268,132
ARRA - Strengthening Communities	93.711	138,588

### 4. OTHER FEDERAL REVENUE

The County is an indirect beneficiary of federal funds that are expended directly by the Michigan Department of Transportation. These expenditures (which totaled \$1,087,808 for the year ended September 30, 2011) are included in the single audit for the State of Michigan.



**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***

March 30, 2012

Honorable Members of the  
Board of Commissioners  
of the County of Muskegon, Michigan  
Muskegon, 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 Muskegon, Michigan* (the "County"), as of and for the year ended September 30, 2011, which collectively comprise the basic financial statements of the County, and have issued our report thereon dated March 30, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with 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.

**Internal Control Over Financial Reporting**

Management of the County of Muskegon, Michigan is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County of Muskegon, Michigan's internal control over financial reporting as a basis for designing our auditing procedures 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 of Muskegon, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Muskegon, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and certain other deficiencies that we consider to be 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2011-FS-1 to be a material weakness.

A *significant deficiency* is a deficiency, or 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 2011-FS-2 through 2011-FS-4 to be significant deficiencies.

### **Compliance and Other Matters**

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

We noted certain other matters that we reported to management of the County of Muskegon, Michigan in a separate letter dated March 30, 2012.

The County of Muskegon, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County of Muskegon, Michigan's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the audit committee, the Board of Commissioners, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, it is a matter of public record, and its distribution is not limited.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

May 15, 2012

Honorable Members of the  
Board of Commissioners  
of the County of Muskegon, Michigan  
Muskegon, Michigan

***Compliance***

We have audited the ***County of Muskegon, Michigan's*** compliance 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 of Muskegon, Michigan's major federal programs for the year ended September 30, 2011. The County of Muskegon, Michigan's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County of Muskegon, Michigan's management. Our responsibility is to express an opinion on the County of Muskegon, Michigan's compliance based on our audit. The County of Muskegon, Michigan's basic financial statements include the operations of the Muskegon County Road Commission, a discretely presented component unit. Our audit, described below, did not include the operations of the Muskegon County Road Commission because this entity arranged to have its audit completed separately.

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 of Muskegon, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the County of Muskegon, Michigan's compliance with those requirements.

In our opinion, the County of Muskegon, Michigan complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-SA-1 and 2011-SA-2.

## Internal Control Over Compliance

Management of the County of Muskegon, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Muskegon, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 of Muskegon, Michigan'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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-SA-1 and 2011-SA-2. 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.

The County of Muskegon, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County of Muskegon, Michigan's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the audit committee, the Board of Commissioners, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, it is a matter of public record, and its distribution is not limited.



# COUNTY OF MUSKEGON, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unqualified

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?  X  yes   none reported

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

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

Identification of major programs:

#### CFDA Number

16.808  
17.207  
17.245  
17.258/17.259/17.260/17.278  
93.558  
93.563

#### Name of Federal Program or Cluster

Edward Byrne Memorial Competitive Grant  
Employment Service  
Trade Adjustment Assistance  
Workforce Investment Cluster (WIA)  
Temporary Assistance to Needy Families  
Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs: \$ 568,705

Auditee qualified as low-risk auditee?   yes  X  no

# COUNTY OF MUSKEGON, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2011-FS-1 - Material Audit Adjustments/Material Prior Period Audit Adjustments

**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 certain material adjustments (which were approved and posted by management) to adjust the County's general ledger to the appropriate balances. In addition, certain material prior period adjustments were prepared and posted by management.

**Cause.** This condition was the result of various current and past unrelated and decentralized oversights in the process of properly closing the County's books and records. Material prior period adjustments were the result of methodology changes of the accounting treatment of transactions and reporting of funds.

**Effect.** As a result of this condition, the County's accounting records were initially misstated by amounts material to certain individual opinion units.

**Recommendation.** Management has already taken appropriate corrective action by reviewing and approving the proposed audit adjustments.

**View of Responsible Officials.** Management agrees with the adjustments proposed, and they have been posted to the County's records. Management will develop and implement policies and procedures to assure maintenance of accounting records in accordance with generally accepted accounting principles.

# COUNTY OF MUSKEGON, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2011-FS-2 - Segregation of Incompatible Duties

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

**Criteria.** Management is responsible for establishing effective internal controls to safeguard the County's assets, and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

**Condition.** Within certain departments and financial transaction systems, the County does not always have appropriate segregation of duties and/or management review. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

**Cause.** This condition was caused, in part, by staffing limitations and turnover in Accounting and other County departments.

**Effect.** As a result of this condition, the County is exposed to an increased risk that misstatements (whether caused by error or fraud) could occur and not be detected by management in a timely manner.

**Recommendation.** We 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.** Management will develop policies and procedures to review controls annually over the various County operations and make changes as necessary.

# COUNTY OF MUSKEGON, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2011-FS-3 - Ability to Modify Accounting Software

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

**Criteria.** Computerized accounting systems should have controls that prevent transactions from being posted out of balance. All adjustments should be posted through the standard journal entry process.

**Condition.** The County's accounting software allows for one-sided transactions to be posted outside the normal posting process, which can result in funds being out of balance. In addition, we noted that these transaction were not prepared or posted following the formal journal entry process which includes support and approval requirements.

**Cause.** This condition is the result of a limitation in the software used by the County and the internal controls in place in maintaining its accounting records.

**Effect.** As a result of this condition, the County lacks internal controls over the alteration of postings to the general ledger and other transactions.

**Recommendation.** We encourage management to actively seek ways to further strengthen its internal control structure by limiting access to the accounting software to authorized individuals. In addition, the County should follow the standard journal entry policies and procedures for all posting of non-routine transactions.

**View of Responsible Officials.** The identified issue was the result of a failure in a processing feature of the current accounting system and the subsequent attempt to correct the entry by the County IT Department. The County is currently in the process of implementing a new accounting system to address this type of issue.

# COUNTY OF MUSKEGON, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2011-FS-4 - Reconciliations of Bank Accounts

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

**Criteria.** Timely bank account reconciliations represent an important control used to detect and prevent material misstatements. According to the Michigan Department of Treasury, bank accounts should be reconciled within six weeks of each month end.

**Condition.** During the current fiscal year, certain bank reconciliations were not performed timely. In addition, the accounts were reconciled against a "cash position" report, rather than the general ledger.

**Cause.** This condition was caused by turnover in the Accounting department, changes in payroll processes during the year, and a misunderstanding of the importance of reconciling the bank accounts to the general ledger.

**Effect.** As a result of this condition, the County's internal accounting records were incomplete throughout the year, and the County was exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management in a timely manner.

**Recommendation.** We recommend that the County prepare bank reconciliations for each of the cash accounts and reconcile to the general ledger balance. These reconciliations should be completed shortly after month end and any variances examined. In addition, the County should ensure that the reconciliation is being reviewed and approved by an individual other than the preparer, and that such review be evidenced by initialing and dating the reconciliation.

**View of Responsible Officials.** Management will implement policies and procedures to assure that timely reconciliations of bank statement balances to the general ledger are prepared, reviewed and approved.

# COUNTY OF MUSKEGON, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### 2011-SA-1 - Internal Controls over Subrecipient Monitoring

**Finding Type.** Immaterial Noncompliance/Significant Deficiency in Internal Control over Compliance.

**Program.** Edward Byrne Memorial Competitive Grant; U.S. Department of Justice; CFDA Number 16.808; Award Number 2009-SC-B9-0047.

**Criteria.** Recipients of federal awards that subgrant funds to other entities are responsible for compliance with requirements related to subrecipient monitoring, as detailed in the OMB Circular A-133 compliance supplement. Such requirements include: (1) identifying to the subrecipient the CFDA number, Federal awarding agency, and award name and number; (2) monitoring the subrecipient's use of Federal awards to provide reasonable assurance that the program is being administered in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that the performance goals are achieved; and (3) ensuring that subrecipients expending \$500,000 or more in Federal awards have met the audit requirements of OMB Circular A-133 and have issued a management decision on audit findings (if applicable).

**Condition.** In contracting with its subrecipients for the Edward Byrne Memorial Competitive Grant program, the County identified the source of the funds by name but did not communicate the CFDA number of the program or include language in the contracts that the funding is subject to OMB Circular A-133 requirements. We reviewed single audit reports for all of the County's subrecipients observing that one of the subrecipients did not include the Edward Byrne Memorial Competitive Grant pass-through funds on its schedule of expenditures of federal awards.

**Cause.** This condition was caused by program management not fully understanding and documenting its actions relative to the applicable federal compliance requirements.

**Effect.** As a result of this condition, the County failed to fully comply with certain requirements of this program.

**Questioned Costs.** No costs were questioned as a result of this finding inasmuch as no actual disallowed costs were identified.

**Recommendation.** We recommend that program management thoroughly review the federal compliance requirements related to subrecipient monitoring and develop formal policies and procedures that will be followed and documented. These procedures should include obtaining single audit reports (when applicable), reconciling the reported expenditures to the County's records of disbursements, and following up on any reported deficiencies. Subrecipients of this award should be notified immediately of the correct CFDA number.

**View of Responsible Officials:** Management agrees with the recommendation and has already begun to modify processes to include the above-recommended procedures.

# COUNTY OF MUSKEGON, MICHIGAN

## Schedule of Findings and Questioned Costs For the Year Ended September 30, 2011

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### 2011-SA-2 - Timeliness of Reporting

**Finding Type.** Immaterial Noncompliance/Significant Deficiency in Internal Control over Compliance.

**Program.** Child Support Enforcement; U.S. Department of Health and Human Services; CFDA Number 93.563; Passed-through the Michigan Department of Human Services; Award Numbers CSPA-10-61002 and CSFOC-10-61001.

**Criteria.** Recipients of federal awards are required to submit timely and accurate reports to the awarding agency in accordance with federal compliance requirements and/or pass-through agency grant agreements.

**Condition.** For a certain federal pass-through grant program, the County did not consistently submit monthly financial status reports within the required timeframe for the program (30 days from reporting period month-end), as specified by grant agreements.

**Cause.** This condition appears to have been caused by a required mid-year change to a mandated electronic reporting method.

**Effect.** As a result of this condition, the County may not have fully complied with certain requirements of this program.

**Questioned Costs.** No costs were required to be questioned as a result of this finding as no unallowable costs were identified.

**Recommendation.** We recommend that the County implement controls to ensure that all necessary reports have been completed and submitted by the required due date.

**View of Responsible Officials.** The transition to the grant's electronic reporting method led to a disruption in the normal reporting flow when months that had been previously manually reported were required to be resubmitted electronically to serve as data entry to the new system. Subsequent months were not allowed to be submitted until each previous month had received online approval from the awarding agency. There was a period of several months that the current month could not be submitted as of the 30-day deadline because of the electronic approval backlog of previous months' reports. And there was at least one month for which the status report submission occurred more than 30 days after the preceding month's approval. The process has become smoother over time and management believes that timely reporting can be achieved going forward.



## COUNTY OF MUSKEGON, MICHIGAN

### Summary Schedule of Prior Audit Findings For the Year Ended September 30, 2011

#### Finding 2010-1 - Material Audit Adjustments

We identified material audit adjustments (which were approved by management and posted to the County's records) to correct the amounts in the general ledger for certain account balances. This finding has been repeated as item 2011-FS-1.

#### Finding 2010-2 - Review and Approval of Time Sheets - CFDA # 93.563- Child Support Enforcement

In connection with our testing of these programs, we selected thirty-seven employee timesheets. Of those, three did not bear evidence of direct supervisor review and approval as required by County policies and procedures. This finding has been corrected.

#### Finding 2010-3 - Internal Controls over Eligibility - CFDA # 17.245 - Trade Adjustment Assistance

According to OMB Circular A-133, grant recipients are required to determine each individual, group of individuals, or subrecipient's eligibility before being allowed into the program or provided funding. During testing of forty individuals, one participant's file could not be located. This finding has been corrected.

#### Finding 2010-4 - Internal Controls over Subrecipient Monitoring - CFDA # 16.804 - Edward Byrne Justice Assistance Grant, CFDA # 16.808 - Edward Byrne Memorial Competitive Grant

Entities passing through federal funding to subrecipients are required to comply with certain requirements as published in OMB Circular A-133. Among these requirements is the need to identify to each subrecipient the CFDA number of the award and the federal agency providing the funding, in addition to notifying the subrecipient that if they expend \$500,000 or more in Federal awards during the subrecipient's fiscal year, a single audit is required under OMB Circular A-133. The County's agreements with its subrecipients for these programs did not communicate the information described above. This finding has been repeated as item 2011-SA-1.

#### Finding 2010-5 - Separate Trust Fund - CFDA # 16.804 - Edward Byrne Memorial Justice Assistance Grant

Recipients are required to establish a trust fund account to deposit Recovery Act - JAG funds prior to expending them. The County did not establish a separate bank account, but deposited the funds in a pooled account. This finding has been corrected.

#### Finding 2010-6 - Preparation and Submission of Reports - CFDA # 16.804 - Edward Byrne Memorial Justice Assistance Grant, CFDA # 16.808 - Edward Byrne Memorial Competitive Grant, CFDA# 17.258, 17.259, 17.260 - Workforce Investment Act Cluster (WIA)

The County did not submit a report within the required timeframe for the quarter ended September 30, 2010 for all of its WIA awards, its Recovery Act - Edward Byrne Memorial Competitive Grant, and its Recovery Act - Edward Byrne Memorial Justice Assistance Grant. This finding has been corrected for the above mentioned grants. However, the finding still exists for different grants and is described in item 2011-SA-2.

# COUNTY OF MUSKEGON, MICHIGAN

## ■ Summary Schedule of Prior Audit Findings For the Year Ended September 30, 2011

Finding 2010-7 - Internal Controls over Subrecipient Monitoring - CFDA # 17.207 - Employment Service Cluster

A pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved. Subrecipient monitoring did not occur during the fiscal year. This finding has been corrected.

Finding 2010-8 - Internal Controls over Cash Management - CFDA # 17.258, 17.259, 17.260 - Workforce Investment Cluster (WIA)

According to OMB Circular A-133, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. During the fiscal year funds were drawn down twice for the same series of expenditures for one of the grants. This finding has been corrected.

