

County of
Muskegon,
Michigan



Year Ended
September 30,
2012

Single Audit Act
Compliance

COUNTY OF MUSKEGON, MICHIGAN

Table of Contents

	<u>Page</u>
Independent Auditors' Report on the Schedule of Expenditures of Federal Awards	1
Schedule of Expenditures of Federal Awards	2
Notes to Schedule of Expenditures of Federal Awards	6
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 <i>Government Auditing Standards</i>	9
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	11
Schedule of Findings and Questioned Costs	13
Summary Schedule of Prior Audit Findings	19



Independent Auditors' Report on the
Schedule of Expenditures of Federal Awards

March 28, 2013

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, 2012 and have issued our report thereon dated March 28, 2013, which contained an unqualified opinion on those financial statements. Our report includes a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 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 financial statements as a whole.

A handwritten signature in black ink that reads "Rehmann Lobson".

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Agriculture				
Child Nutrition Cluster:				
National School Breakfast Program	10.553	MDE	111970 / 121970	\$ 8,691
National School Lunch Program	10.555	MDE	111960 / 121960	16,339
				<u>25,030</u>
Law Enforcement Cooperative Agreement	10.unk	Direct	-n/a-	<u>2,041</u>
Special Supplemental Nutrition Program for Women, Infants, & Children (WIC):				
WIC Program-Breastfeeding	10.557	MDCH	W500342	71,974
WIC Program-Resident Services	10.557	MDCH	IW100342	1,136,988
				<u>1,208,962</u>
Supplemental Nutrition Assistance Program:				
Supplemental Nutrition Assistance Program (SNAP)	10.561	MDCH	2MI420122	79,200
Supplemental Nutrition Assistance Program-Supports	10.561	MDCH	2MI400100	134
				<u>79,334</u>
Total U.S. Department of Agriculture				<u>1,315,367</u>
U.S. Department of Housing and Urban Development				
Neighborhood Stabilization Program 3	14.218	Direct	B-11-UN-26-0008	<u>270,458</u>
Community Development Block Grant (CDBG)				
Housing Rehabilitation Program	14.228	Direct	-n/a-	<u>3,428</u>
Supportive Housing Program:				
HUD Supportive Housing Grant #1	14.235	Direct	MI0253B5F161104	100,727
HUD Supportive Housing Grant #2	14.235	Direct	MI0254B5F161104	16,594
HUD Supportive Housing Grant #3	14.235	Direct	MI0250B5F161101	18,444
HUD Supportive Housing Grant #4	14.235	Direct	MI0324B5F161101	23,165
				<u>158,930</u>
Lead-Based Paint Hazard Control Program	14.900	Direct	-n/a-	<u>135,280</u>
Total U.S. Department of Housing and Urban Development				<u>568,096</u>
U.S. Department of the Interior				
Payments in Lieu of Taxes	15.226	Direct	-n/a-	<u>27,044</u>
U.S. Department of Justice				
Crime Victim Assistance	16.575	MDMB	20484-15V11	<u>66,807</u>
State Criminal Alien Assistance Program (SCAAP):				
Solicitation Year 2011	16.606	Direct	2011-AP-BX-0695	3,581
Solicitation Year 2012	16.606	Direct	2012-AP-BX	2,564
				<u>6,145</u>
Project Safe Neighborhoods 08	16.609	GVSU	2008-GP-CX-0036	<u>1,197</u>

continued...

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Justice (continued)				
JAG Program Cluster:				
West Michigan Enforcement Team (WEMET) Ottawa County	16.738	CO	2011-DJ-BX-2240	\$ 29,923
Edward Byrne Memorial Justice Assistance Grant	16.738	SCAO	SCAO-2012-077	32,000
ARRA - Edward Byrne Memorial Justice Assistance Grant	16.804	Direct	2009-SB-B9-1824	78,187
				<u>140,110</u>
Jail Screening and Assessment	16.753	Direct	2010-DD-BX-0407	<u>7,074</u>
ARRA - Edward Byrne Memorial Competitive Grant	16.808	Direct	2009-SC-B9-0047	<u>78,299</u>
Total U.S. Department of Justice				<u>299,632</u>
U.S. Department of Labor				
Employment Service/Wagner Peysner 7(a) Program	17.207	WDA	ES207561055A26	<u>317,026</u>
Reemployment Services Emergency Unemployment Compensation (EUC)	17.225	WDA	ES224371155A26	<u>107,057</u>
Trade Adjustment Assistance Program	17.245	WDA	-n/a-	1,346,178
Trade Case Management	17.245	WDA	-n/a-	51,500
				<u>1,397,678</u>
Workforce Investment Act (WIA) Cluster:				
WIA Adult	17.258	WDA	AA214021155A26	607,218
WIA Capacity Building	17.258/.259/.278	WDA	AA202001055A26	16,000
WIA Performance Incentive	17.258/.259/.278	WDA	AA214021155A26	1,171
WIA Local Administration	17.258/.259/.278	WDA	AA202001055A26	75,506
WIA Local Administration	17.258/.259/.278	WDA	AA214021155A26	176,184
WIA Youth	17.259	WDA	AA202001055A26	25,067
WIA Youth	17.259	WDA	AA221101155A26	704,185
WIA Youth	17.259	WDA	AA229421255A26	53,250
ARRA - On-the-Job Training (OJT) National Emergency Grant (NEG)	17.260	KSJMW	-n/a-	51,810
ARRA - WIA Dislocated Worker NEG-West MI	17.260	WDA	EM-19537-10-60-A-26	643,776
ARRA - WIA SWA Energy Conservation Apprenticeship Readiness (ECAR)	17.258/259/260	WDA	AA186470955	64,451
WIA Dislocated Worker	17.278	WDA	AA202001055A26	101,642
WIA Dislocated Worker	17.278	WDA	AA214021155A26	629,349
WIA SWA Michigan Works! Agency Service Center Operations	17.258/259/278	WDA	AA202001055A26	13,690
WIA SWA Michigan Works! Agency Service Center Operations	17.258/259/278	WDA	AA202001055A26	4,241
WIA SWA TANF replacement	17.258/259/278	WDA	AA214021155A26	176,900
WIA SWA TANF replacement	17.258/259/278	WDA	AA202001055A26	15,049
WIA SWA Youth	17.258/259/278	WDA	AA202001055A26	1,786
				<u>3,361,275</u>
Total U.S. Department of Labor				<u>5,183,036</u>

continued...

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Transportation				
Federal Transit Cluster:				
Federal Transit 5309 - Capital Investment Grants	20.500	MDOT	MI-03-0228	\$ 4,244
Federal Transit 5309 - Capital Investment Grants	20.500	MDOT	MI-04-0068	427,500
Federal Transit 5309 - Capital Investment Grants	20.500	MDOT	MI-04-0069	18,352
Federal Transit 5307 - Formula Grants	20.507	MDOT	MI-90-X388	266,146
Federal Transit 5307 - Congestion Mitigation & Air Quality Improvement	20.507	MDOT	MI-04-X407	43,725
Federal Transit 5307 - Formula Grants	20.507	MDOT	MI-90-X497	79,434
Federal Transit 5307 - Formula Grants	20.507	MDOT	MI-90-X558	23,827
Federal Transit 5307 - Formula Grants	20.507	MDOT	MI-90-X624	606,600
Federal Transit 5307 - Formula Grants	20.507	MDOT	MI-90-X636	459,887
Federal Transit 5307 - Congestion Mitigation & Air Quality Improvement	20.507	MDOT	MI-95-X055	345,724
ARRA - Federal Transit 5307	20.507	MDOT	MI-96-X010	1,070,133
				<u>3,345,572</u>
Federal Transit 5317 New Freedom Program	20.521	MDOT	2012-0138 P001	<u>97,060</u>
Highway Safety Cluster:				
State and Community Highway Safety - Traffic Enforcement	20.600	MSP	410 PT-12-29	35,367
State and Community Highway Safety - Traffic Enforcement	20.600	MSP	402 PT-12-29	6,895
				<u>42,262</u>
E-911 Grant Program	20.615	MSP	20080142	<u>28,780</u>
Hazardous Materials Emergency Preparedness Grant	20.703	MSP	HM-HMP-0228-11-01-00	<u>1,000</u>
Total U.S. Department of Transportation				<u>3,514,674</u>
U.S. Department of Energy				
EECBG Advanced Lighting Technology Demonstration (ALTD)	81.128	MDLEG	MEO-11-070	<u>35,046</u>
U.S. Department of Health and Human Services				
Public Health Emergency Preparedness Programs:				
Bioterrorism Supplemental	93.069	MDCH	U90TP517018	105,064
Hospital Preparedness	93.069	MDCH	U90TP000528	21,884
				<u>126,948</u>
Homeless Project	93.150	Direct	2X06SM060023-11	<u>44,000</u>
Muskegon Environmental Contamination Health Assessment	93.161	MDCH	2011-1172-00	<u>43,951</u>
Immunization Cluster:				
Immunization Grants - Immunization Action Plan (IAP)	93.268	MDCH	H23 CCH522556	82,268
Vaccines (non-cash assistance)	93.268	MDCH	-n/a-	187,617
				<u>269,885</u>
MI Colorectal Cancer Screening Program	93.283	MDCH	5U58DP002022	<u>8,752</u>
Temporary Assistance for Needy Families (TANF)	93.558	WDA	G-1202MITANF	<u>2,832,977</u>

continued...

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Health and Human Services (continued)				
Prosecutor Cooperative (IV-D Incentive)	93.563	MDHS	CSPA-10-61002	\$ 215,968
Child Support Incentives	93.563	MDHS	-n/a-	229,083
Child Support Enforcement (IV-D CRP contract)	93.563	MDHS	CSFOC-10-61001	<u>1,612,562</u>
				<u>2,057,613</u>
ARRA - Strengthening Communities	93.711	Direct	903N0040	<u>24,582</u>
ARRA II Tobacco - Collaborative Prevention Project	93.723	MDCH	3U58DPO01973	<u>11,834</u>
Medicaid Outreach	93.778	MDCH	05 U05M15ADM	4,476
Pre-Admission Screening and Resident Review (OBRA-PASRR)	93.778	MDCH	2011-1172-00	28,542
CSHCS-Outreach & Advocacy - Medical Assistance Program	93.778	MDCH	05 U05M15ADM	<u>38,447</u>
				<u>71,465</u>
Family Planning / BCCCP Joint Project	93.919	MDCH	U58DP000812	5,335
Breast & Cervical Cancer Coord.	93.919	MDCH	U58DP000812	<u>63,078</u>
				<u>68,413</u>
HIV Prevention Activities - Health Department Based	93.940	MDCH	U62 CCU52346401	<u>25,010</u>
Block Grants for Community Mental Health Services:				
Community Recovery Services	93.958	MDCH	11B1MICMHS	70,000
Serious Emotional Disturbance Waiver (SEDW)	93.958	MDCH	11B1MICMHS	56,233
CMH Primary Care Integration Project	93.958	MDCH	11B1MICMHS	93,515
Parent Management Training (PMTO)	93.958	MDCH	11B1MICMHS	<u>42,670</u>
				<u>262,418</u>
Substance Abuse Prevention	93.959	LCC	-n/a-	100,297
Law Enforcement Compliance & Synar Amendment Reporting	93.959	LCC	-n/a-	<u>2,254</u>
				<u>102,551</u>
Sexually Transmitted Disease (STD) Control	93.991	MDCH	B1 MI PRVS	<u>61,950</u>
Maternal and Child Health Services, Title V	93.994	MDCH	B1MIMCHS	147,132
Fetal Infant Mortality Review (FIMR) Case Extractions	93.994	MDCH	B1MIMCHS	5,400
CSHCS-Outreach & Advocacy - Maternal and Child Health Services	93.994	MDCH	B1MIMCHS	<u>36,106</u>
				<u>188,638</u>
Total U.S. Department of Health and Human Services				<u>6,200,987</u>
U.S. Department of Homeland Security				
Homeland Security Grant Program	97.067	WMSRDC	-n/a-	<u>296,725</u>
Total Expenditures of Federal Awards				<u>\$ 17,440,607</u>

concluded

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, 2012. 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, 2012, 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. Pass-through entity identifying numbers are presented where available.

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	\$ 33,498
Jail Screening and Assessment	16.753	6,818
ARRA - Edward Byrne Memorial Justice Grant	16.804	74,152
ARRA - Edward Byrne Memorial Competitive Grant	16.808	66,309
Wagner Peyser	17.207	299,686
Reemployment Services Emergency		
Unemployment Compensation (EUC)	17.225	11,297
Trade Adjustment Assistance Program	17.245	124,254
Workforce Investment Act (WIA) Cluster	17.258/.259/ .260/.278	1,766,558
Temporary Assistance to Needy Families (TANF)	93.558	1,656,483
ARRA - Strengthening Communities	93.711	22,058

COUNTY OF MUSKEGON, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

4. PASS-THROUGH AGENCIES

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

Pass-through Agency Abbreviation	Pass-through Agency Name
CO	County of Ottawa
GVSU	Grand Valley State University
KSJMW	Kalamazoo/St. Joseph Michigan Works!
LCC	Lakeshore Coordinating Council
MDCH	Michigan Department of Community Health
MDE	State of Michigan Department of Education
MDHS	Michigan Department of Human Services
MDLEG	Michigan Department of Labor and Economic Growth
MDMB	Michigan Department of Management & Budget
MDOT	Michigan Department of Transportation
MSP	Michigan State Police
SCAO	Michigan State Court Administrative Office
WDA	Workforce Development Agency
WMSRDC	West Michigan Shoreline Regional Development Corporation

5. 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 \$1,076,978 for the year ended September 30, 2012) are included in the single audit for the State of Michigan.



This page intentionally left blank.

**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 28, 2013

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, 2012, which collectively comprise the basic financial statements of the County, and have issued our report thereon dated March 28, 2013. 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 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County'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.

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 2012-FS-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County'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 in a separate letter dated March 28, 2013.

The County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

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

March 28, 2013

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

Compliance

We have audited the compliance of the *County of Muskegon, Michigan*, (the "County") with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2012. The County'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's management. Our responsibility is to express an opinion on the County's compliance based on our audit. The County's basic financial statements include the operations of the Muskegon County Community Mental Health fund, a major special revenue fund and, Muskegon County Road Commission, a discretely presented component unit. Our audit, described below, did not include the operations of the Muskegon County Mental Health fund or the Muskegon County Road Commission because the entities arranged to have their audits 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'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'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, 2012. 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 2012-SA-1, -2, -3, and -4.

Internal Control Over Compliance

Management of the County 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'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'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 2012-SA-2, -3, and -4. 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'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'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.



COUNTY OF MUSKEGON, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

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? yes X 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:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Women, Infants, and Children (WIC)
16.738/16.804	JAG Program Cluster
17.258/17.259/17.260/17.278	Workforce Investment Act Cluster (WIA)
20.500/20.507	Federal Transit Cluster
93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs: \$ 523,218

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, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

2012-FS-1 - Material Audit Adjustments/Material Prior Period Adjustment

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 in relation to accrued insurance payables, accrued landfill postclosure costs, and net other postemployment benefits obligation (which were approved and posted by management) to adjust the County's general ledger to the appropriate balances. In addition, a certain material prior period adjustment from fiscal 2010 in relation to notes receivable was identified, approved 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.

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 recording the prior period adjustment and 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 has developed, and worked to implement, policies and procedures across the County's departments to assure maintenance of accounting records in accordance with generally accepted accounting principles, and will continue to emphasize the importance of compliance.

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-1 - Internal Controls over Subrecipient Monitoring

Finding Type. Immaterial Noncompliance in Internal Control over Compliance (Subrecipient Monitoring).

Program. Edward Byrne Memorial Justice Assistance Grant Cluster; U.S. Department of Justice; CFDA Number 16.738 and 16.804; Award Numbers 2009-SB-B9-0047, SCAO-2012-077 passed through the Michigan State Court Administrative Office, and 2011-DJ-BX-2240 passed through the County of Ottawa.

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. The County conducted subrecipient monitoring using the wrong CFDA number as the basis of the monitoring. In one instance, we observed that the County required corrective action from the subrecipient for not having a correct CFDA number included in the subrecipient's single audit report, even though the subrecipient had included the correct CFDA number.

Cause. This condition was caused by an oversight by program management by not identifying the correct CFDA number for the grant program for which monitoring was conducted.

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, including performance of an independent review by financial management or financial management's designee of observations and recommendations to subrecipients prior to issuing monitoring reports to subrecipients.

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-2 - Internal Controls Over Reporting

Finding Type. Immaterial Noncompliance/Significant Deficiency in Internal Control over Compliance (Reporting).

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. The County misreported indirect cost charges on its monthly reports leading to revisions throughout the entire fiscal year. We noted that at year-end, the necessary corrections had been made.

Cause. This condition appears to have been caused by a lack of review of the expenditure reports that are the source for reimbursement from the Michigan Department of Human Services.

Effect. As a result of this condition, the County did not fully comply with certain requirements of this program.

Questioned Costs. No costs were required to be questioned as a result of this finding inasmuch as the indirect cost charges were corrected prior to year end.

Recommendation. We recommend that the County implement controls to ensure that all necessary reports have been completed and submitted accurately and in a timely manner, including but not limited to independent review.

View of Responsible Officials. Management will continue to review controls within the various County operations make changes as necessary to promote timely and accurate compliance reporting, including the performance and documentation of independent review.

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-3 - Documentation of Payroll Expenditures in Accordance with Federal Cost Principles

Finding Type. Immaterial Noncompliance/Significant Deficiency in Internal Control over Compliance (Allowable Costs/Cost Principles).

Program. Federal Transit Cluster; U.S. Department of Transportation; CFDA Numbers 20.500 and 20.507; Passed through the Michigan Department of Transportation; Award Numbers MI-03-0228, MI-04-0068, MI-04-0069, MI-90-X388, MI-04-X407, MI-90-X497, MI-90-X558, MI-90-X624, MI-90-X636, MI-95-X055, and MI-96-X010.

Criteria. U.S. Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that when employees work on multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports. The Circular requires these reports be prepared at least monthly and must coincide with one or more pay periods. For employees charged entirely to one program, the use of semi-annual certifications is also permissible.

Condition. We identified one individual who did not fill out a personnel activity report and whose wages and fringes were charged to the grant based on budgeted percentages.

Cause. This condition appears to have been caused by an oversight in understanding the complex documentation requirements that apply to personnel costs charged to federal awards.

Effect. As a result of this condition, the County charged certain personnel costs to this program without sufficient documentation as required by OMB Circular A-87.

Questioned Costs. The total amount of questioned costs charged to the program was \$21,243.

Recommendation. We recommend that management review the guidance on allowable documentation for personnel costs and ensure that appropriate communication and training is provided to department managers and individuals working on federal grant programs.

View of Responsible Officials. Management will continue to publish periodic communications and provide training to appropriate employees regarding the federal timekeeping requirements that must be followed when working on federally-funded programs.

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2012

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-SA-4 - Direct Charges to Federal Grants for Severance and Unused Leave Pay

Finding Type. Immaterial Noncompliance/Significant Deficiency in Internal Control over Compliance (Allowable Costs/Cost Principles).

Program. Women, Infants, and Children (WIC); U.S. Department of Agriculture; CFDA Number 10.557; Passed through the Michigan Department of Community Health; Award Numbers W500342 and IW100342.

Criteria. U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that severance pay and payments for unused absence time be allocated as a general administrative expense to all activities of the governmental unit.

Condition. The County has charged severance pay and payments for unused absence time as direct costs to the federal program rather than as indirect costs.

Cause. Management has not implemented adequate internal controls to ensure severance leave payments and payments for unused leave are not charged as direct costs to grants.

Effect. As a result of this condition, the County did not fully comply with certain requirements of this program.

Questioned Costs. The total amount of questioned costs charged to the program was \$27,219.

Recommendation. We recommend the County modify its procedures to ensure that severance leave payments and payments for unused leave are not charged as direct costs to grants.

View of Responsible Officials. Management has plans to research, develop and implement procedures to allocate the severance pay associated with normal turnover of County employees to all activities of the County as an allowable indirect cost.



COUNTY OF MUSKEGON, MICHIGAN

■ Summary Schedule of Prior Audit Findings For the Year Ended September 30, 2012

Finding 2011-SA-1 - Internal Controls over Subrecipient Monitoring - CFDA # 16.808 - ARRA - 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. Corrective action has not been sufficient and the finding has been repeated as 2012-SA-1.

Finding 2011-SA-2 - Timeliness of Reporting - CFDA# 93.563 - Child Support Enforcement

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. This finding has been corrected.

