

County of
Muskegon,
Michigan



Year Ended
September 30,
2016

Single Audit Act
Compliance

COUNTY OF MUSKEGON, MICHIGAN

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INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

March 27, 2017

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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 27, 2017, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Total Subawards	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE					
Child Nutrition Cluster:					
National School Breakfast Program	10.553	MDE	151970/161970	\$ -	\$ 17,000
National School Lunch Program	10.555	MDE	151960/161960	-	33,752
				-	50,752
Schools and Roads - Grants to States	10.665	MDNR	n/a	12,454	12,454
U.S. Forest Service Law Enforcement Cooperative Agreement	10.704	Direct	11-LE-11090400-017	-	2,316
Special Supplemental Nutrition Program for Women, Infants, & Children (WIC): WIC Program-Resident Services, WIC Admin	10.557	MDHHS	16162MI003W1003	-	1,018,565
Total U.S. Department of Agriculture				12,454	1,084,087
U.S. DEPARTMENT OF COMMERCE					
NOAA Habitat Conservation Program 1 (Bosma property)	11.463	Direct	NA12NOS4630176	-	189,017
NOAA Habitat Conservation Program 2 (Willbrandt property)	11.463	Direct	NA13NOS4630165	-	178,382
Total U.S. Department of Commerce				-	367,399
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Community Development Block Grants - Entitlement Grants Cluster:					
Neighborhood Stabilization Program 3	14.218	Direct	B-11-UN-26-0008	-	35,326
Lead-Based Paint Hazard Control Program	14.900	Direct	MILHB0573-14	-	287,051
Total U.S. Department of Housing and Urban Development				-	322,377
U.S. DEPARTMENT OF THE INTERIOR					
Payments in Lieu of Taxes - National Forestry Reserve	15.226	Direct	-n/a-	-	28,656
U.S. DEPARTMENT OF JUSTICE					
Crime Victim Assistance	16.575	MDHHS	20160047-00	-	50,607
State Criminal Alien Assistance Program (SCAAP)	16.606	Direct	2016-AP-BX-0259	-	3,463
Justice Assistance Grant (JAG) Program Cluster:					
Edward Byrne Memorial JAG Program:					
West Michigan Enforcement Team Ottawa County	16.738	CO	70834-7-WEMET-16	-	12,250
60th District Court Sobriety Court Program	16.738	MSC SCAO	SCAO-2015-04855	-	42,000
				-	54,250
Total U.S. Department of Justice				-	108,320
U.S. DEPARTMENT OF TRANSPORTATION					
Federal Transit Cluster:					
Section 5309 Capital Investment Grants:					
Capital Assistance	20.500	Direct	MI-03-0228	-	5,058
Facility Development	20.500	Direct	MI-04-0069	-	73,849
				-	78,907
Section 5307 Formula Grants:					
Capital Assistance	20.507	Direct	MI-90-X670-00	-	295,559
Capital Assistance	20.507	Direct	MI-90-X698-00	-	780,564
Capital Assistance	20.507	Direct	MI-2016-027	-	891,941
Congestion Mitigation & Air Quality (CMAQ) Improvement	20.507	Direct	MI-95-X094-00	-	208,723
				-	2,176,787

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COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Total Subawards	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION (CONCLUDED)					
Federal Transit Cluster (Concluded):					
Section 5339 Bus and Bus Facilities Formula Program:					
Terminal Equipment	20.526	MDOT	2012-0138-P008	\$ -	\$ 940
Terminal Equipment	20.526	MDOT	2012-0138-P018	-	14,280
				<u>-</u>	<u>15,220</u>
Total Federal Transit Cluster				<u>-</u>	<u>2,270,914</u>
Transit Services Programs Cluster:					
Section 5310/5317 New Freedom Program:					
Bus Stop Improvements	20.513	MDOT	2012-0138/P013	-	11,105
New Freedom	20.521	MDOT	2012-1038/P020/R1	-	120,000
				<u>-</u>	<u>131,105</u>
Highway Safety Cluster:					
Strategic Traffic Enforcement Program	20.600	MSP	PT-16-15	-	63,531
Alcohol Impaired Driving Countermeasures	20.601	MSP	AL-16-08	-	8,478
				<u>-</u>	<u>72,009</u>
Hazardous Materials Emergency Preparedness Grant					
	20.703	MSP	HM-HMP-0439-14-01-01	-	3,933
Total U.S. Department of Transportation				<u>-</u>	<u>2,477,961</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY					
Drinking Water State Revolving Fund Cluster:					
Standard/Operator Assistance	66.468	MDEQ	FS975487-14	-	219
Revised Total Coliform Rule	66.468	MDEQ	FS975487-15	-	2,915
				<u>-</u>	<u>3,134</u>
Environmental Quality Great Lakes Beach Water Monitoring					
	66.472	MDEQ	CU00E99306	16,577	16,594
Total U.S. Environmental Protection Agency				<u>16,577</u>	<u>19,728</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Public Health Emergency Preparedness Programs:					
Hospital Preparedness 10/01/15 - 6/30/16	93.069	MDHHS	U90TP000528	-	102,552
Hospital Preparedness 7/01/16 - 9/30/16	93.069	MDHHS	NU90TP000528	-	31,313
PHEP Ebola Virus Disease Phase II 7/01/16 - 9/30/16	93.069	MDHHS	U90TP000528	-	17,474
				<u>-</u>	<u>151,339</u>
Immunization Cooperative Agreements:					
Immunization Grants - Immunization Action Plan (IAP)	93.268	MDHHS	H23IP000752	-	22,891
Immunization Grants - Immunization Action Plan (IAP)	93.268	MDHHS	NH23IP000752	-	15,148
Vaccines (non-cash assistance)	93.268	MDHHS	NH23IP000752	-	190,812
				<u>-</u>	<u>228,851</u>
Capacity Building Activities to Strengthen Public Health Infrastructure and Performance:					
Million Hearts Michigan Learning Collaborative	93.524	MDHHS	83-12302	-	4,211
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure Immunization Action Plan					
	93.539	MDHHS	NH23IP000752	-	53,524
Child Support Enforcement (Title IV-D):					
Cooperative Reimbursement Program - Friend of the Court	93.563	MDHHS	CSCOM13-61003	-	2,559,770
Child Support Incentives	93.563	MDHHS	CSCOM13-61003	-	257,034
				<u>-</u>	<u>2,816,804</u>
State Access and Visitation Program					
	93.597	MSC SCAO	SCAO-2016-013	-	4,075
Medical Assistance Program (Medicaid):					
Children's Special Health Care Services (CSHCS)					
Outreach & Advocacy	93.778	MDHHS	MI20161,2,3&4	-	56,500

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COUNTY OF MUSKEGON, MICHIGAN

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Total Subawards	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (CONCLUDED)					
HIV Prevention Activities - Health Department Based	93.940	MDHHS	U62PS003671	\$ -	\$ 1,000
Maternal and Child Health Services Block Grant to the States:					
Enabling Services Children	93.994	MDHHS	B04MC29348	-	62,500
Enabling Services Women	93.994	MDHHS	B04MC29348	-	32,502
Public Health Functions and Infrastructure	93.994	MDHHS	B04MC29348	-	70,824
Childhood Lead Poisoning Prevention Program	93.994	MDHHS	B04MC29348	-	20,000
Infant Safe Sleep Program	93.994	MDHHS	B04MC29348	-	22,500
				-	208,326
Total U.S. Department of Health and Human Services				-	3,524,630
EXECUTIVE OFFICE OF THE PRESIDENT					
High Intensity Drug Trafficking Areas Programs	95.001	MSP	-n/a-	-	4,517
U.S. DEPARTMENT OF HOMELAND SECURITY					
Emergency Management Performance Grant	97.042	MSP	EMC-2016-EP-00001	-	44,395
2014 Port Security Grant Program	97.056	Direct	EMW-2014-PU-00226	-	153,034
Homeland Security Grant Program	97.067	WMSRDC	EMW-2016-SS-00010-S01	-	124,866
Total U.S. Department of Homeland Security				-	322,295
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 29,031	\$ 8,259,970
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, 2016. 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.

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, and HealthWest, a major special revenue fund, which received federal awards that are not included in the Schedule for the year ended September 30, 2016, as these entities were 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 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.

For purposes of charging indirect costs to federal awards, the County has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. RECONCILIATION TO FINANCIAL STATEMENTS

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

Federal revenue as reported in the financial statements:	
Governmental funds	\$ 7,128,864
Enterprise funds:	
Grants and contributions - federal	2,314,086
Capital contributions - federal	1,084,861
Amounts expended directly by the Michigan Department of Transportation for the benefit of the County of Muskegon	(996,928)
Amounts received under a vendor relationship	(65,955)
Amounts audited by other auditors	<u>(1,204,958)</u>
Federal expenditures as reported on the Schedule	<u>\$ 8,259,970</u>

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, Michigan
MDE	Michigan Department of Education
MDEQ	Michigan Department of Environmental Quality
MDHHS	Michigan Department of Health and Human Services
MDNR	Michigan Department of Natural Resources
MDOT	Michigan Department of Transportation
MSP	Michigan State Police
MSC SCAO	Michigan Supreme Court, State Court Administrative Office
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 \$996,928 for the year ended September 30, 2016) are not presented on the Schedule, as they will be 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 27, 2017

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *County of Muskegon, Michigan* (the "County"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 27, 2017. Our report includes a reference to other auditors who audited the financial statements of the Muskegon County Road Commission (a discretely presented component unit), and HealthWest (a major special revenue fund), as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Muskegon County Road Commission were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified 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 item 2016-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

County of Muskegon's Response to Finding

The County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Rehmann Lobarr LLC".

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

March 27, 2017

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of the *County of Muskegon, Michigan* (the "County") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended September 30, 2016. The County's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The County's basic financial statements include the operations of the Muskegon County Road Commission (a discretely presented component unit) and HealthWest (a major special revenue fund), which received federal awards that are not included in the Schedule. Our audit, described below, did not include the operations of the Muskegon County Road Commission or HealthWest, as those entities engaged other auditors to perform their audits.

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.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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). 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 the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2016.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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



COUNTY OF MUSKEGON, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major programs:

CFDA Number

93.563

Name of Federal Program or Cluster

Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

X yes no

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

2016-001 - Material Audit Adjustment and Prior Period Adjustment (repeat comment)

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). Generally accepted auditing standards require us to identify and report to those charged with governance any material adjustments identified during the audit process.

Condition. During our audit, we identified and proposed a certain material adjustment (which was approved and posted by management) to adjust the County's general ledger to the appropriate balances. This adjustment related to recording the current year activity for transactions previously being accounted for in an agency fund to the General Fund for amounts that were deemed not fiduciary in nature. In addition, a prior period adjustment was made in the current year to correct for unbilled receivables and revenue for September 2015 that were omitted from the prior fiscal year.

Cause. This condition was caused by (a) reevaluation of funding sources for which it has been determined that the County controls the assets and is a beneficiary of the activities being funded, such that a designation as fiduciary custodial activities is not appropriate, and (b) a prior year accrual misstatement not being identified by management until the current fiscal year.

Effect. As a result of this condition, the County's accounting records were initially misstated by amounts that were material to the financial statements, and resulted in the need for audit adjustments.

Recommendation. Management has already taken the appropriate corrective action by reviewing and approving the proposed audit adjustments. We recommend that management continue to carefully review all financial statement areas to further mitigate the potential for audit adjustments.

View of Responsible Officials. The funding sources and related activities that are to be classified within the General Fund public safety function from 2016 forward had followed consistent treatment as agency fund fiduciary activities for over 20 years. Upon current review, management agrees with the adjustment proposed by the auditors, which has been posted to the County's records. Management's system of internal control identified the prior year unbilled receivables and revenue and proposed and recorded the appropriate prior period adjustment.

COUNTY OF MUSKEGON, MICHIGAN

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2016

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

COUNTY OF MUSKEGON, MICHIGAN

■ Summary Schedule of Prior Audit Findings For the Year Ended September 30, 2016

2015-001 - Audit Adjustments

A significant audit adjustment was needed to adjust the County's general ledger to the appropriate balance related to landfill postclosure cost and expense in the Solid Waste enterprise fund. In addition, procedures over capital assets identified various errors in the County's schedules, including variances between the capital asset rollforwards, the capital asset detail, and the underlying general ledger, which further resulted in the need for adjustments. This finding has been repeated as 2016-001 for unrelated adjustments.



MUSKEGON COUNTY

M I C H I G A N

CORRECTIVE ACTION PLAN

BOARD OF COMMISSIONERS

Benjamin E. Cross
Chair, District 2

Charles Nash
Vice-Chair, District 6

Rillastine R. Wilkins
District 1

Susie Hughes
District 3

Robert Scolnik
District 4

Marvin Engle
District 5

Gary Foster
District 7

I. John Snider II
District 8

Kenneth Mahoney
District 9

Certain matters were brought to our attention as a result of the audit process. These are described at length in the Schedule of Findings and Questioned Costs. We evaluated each of these matters as described below, and have described our planned actions as a result.

2016-001 - Material Audit Adjustment and Prior Period Adjustment

Planned Corrective Action.

Financial statement finding 2016-001 reported (a) an audit adjustment to reclassify activity from an agency fund to the general fund that the auditors considered to be material; as well as (b) a prior period adjustment recorded in the current fiscal year.

The County has designed and implemented internal controls relevant to the preparation of financial statements that are free from material misstatements. The design of these controls places significant emphasis on prevention of errors, but also includes analytical review and account analysis to detect and correct errors that may have slipped past the initial controls. During the fiscal year there were over 130,000 items posted to the general ledger, most of which were generated by financial processing modules such as accounts payable, payroll, receivables billing, cash receipts and fixed assets.

Just over 2,700 of the year's transactions were manual journal entries, the large majority of which were used to record revenue and expense accruals, and for interdepartmental allocations of revenue and expenditures. Throughout the year, internal control review led to the detection and correction by County staff of approximately 470 items identified by review, account analysis and other means, which reflects a proper functioning of the County's internal controls. In addition, independent review resulted in a number of journal entries that were modified before being posted to the general ledger as result of a careful review process.

The previously-omitted reclassification to the general fund from an agency fund is one of three potential corrections reported by the auditors, and the only such item classified as material to the financial statements. This type of misstatement is unusual because it involved a change in judgment on the nature of transactions, rather than noncompliance with established accounting and reporting controls. Although GASB Statement 84 (Fiduciary Activities) is not required to be adopted until fiscal 2020, management has plans before the fiscal 2017 year-end close to review the standards for classification of fiduciary activities and give consideration as to whether activities accounted for in agency accounts should continue to be classified as fiduciary activities.

The prior period adjustment reflected a proper current year functioning of the County's internal control by detecting and correcting a transaction omitted from the prior year. The process of training new department staff to properly code the billing system to accrue revenue/receivables in the proper period revealed that the procedure has not been followed in the previous year and had not been detected by secondary controls at the prior year end. The corrective action, which has been completed, involved training department staff to properly accrue revenue and department procedures are in place, monitored by management, to ensure proper cutoff practice is followed going forward. The County has posted the necessary adjustments to the general ledger to correct the errors.

Responsible Party. Accounting Manager.

Date of Planned Corrective Action. September 30, 2017.

Management Assessment. We concur with the audit assessment regarding this matter.