

IOSCO COUNTY
TAWAS CITY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED DECEMBER 31, 2014

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June 16, 2015

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

Board of Commissioners
Iosco County
Tawas City, 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 Iosco County as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Iosco County's basic financial statements and have issued our report thereon dated June 16, 2015. Our report includes a reference to other auditors who audited the financial statements of Iosco Medical Care Facility and Iosco County Road Commission, as described in our report on Iosco 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 Iosco Medical Care Facility 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 Iosco 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 Iosco County's internal control. Accordingly, we do not express an opinion on the effectiveness of Iosco County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 deficiencies described in the accompanying schedule of findings and questioned cost to be material weaknesses. 2014-001 and 2014-002.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. 2014-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Iosco 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*.

Iosco County's Response to Findings

Iosco County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Iosco 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stephenson, Graub & Co., P.C.

June 16, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Commissioners
Iosco County
Tawas City, Michigan

Report on Compliance for Each Major Federal Program

We have audited Iosco County'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 Iosco County's major federal programs for the year ended December 31, 2014. Iosco County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Iosco County's financial statements include the operations of Iosco County Road Commission, which received \$524,429 in federal awards which is not included in the schedule during the year ended December 31, 2014. Our audit, as described below, did not include the operations of Iosco County Road Commission because the federal awards were for contracted projects. These contracted projects fall under the single audit requirements of the Michigan Department of Transportation.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Iosco County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Iosco 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 Iosco 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 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 Iosco County's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 Iosco County as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Iosco County's basic financial statements. We issued our report thereon dated June 16, 2015, 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 the purposes of additional analysis as required by OMB 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Stephenson, Grubb & Co., P.C.

IOSCO COUNTY
Tawas City, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2014

Findings - Financial Statements Audit

2013-001 Financial Statement Preparation

As in the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of financial statements and footnotes as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based in part, on its external auditors, who cannot by definition be considered a part of the County's internal controls.

This situation still exists. See the current year finding 2014-001 for details.

2013-002 Reconciliation and Review of Inmate Trust Bank Account

There is no accurate bank reconciliation performed for the Sheriff's department inmate trust bank account and there is no review of the bank statement or reconciliation by anyone other than the preparer.

This situation has been corrected. There is an accurate bank reconciliation and it is reviewed by an individual other than the preparer.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ended December 31, 2013.

IOSCO COUNTY
Tawas City, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2014

Summary of Auditors' Results

1. The auditors' report expresses unmodified opinions on the financial statements of Iosco County.
2. Two material weaknesses and one significant deficiency in internal control relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Iosco County, which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses relating to the audit of internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Iosco County expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for Iosco County are reported in this schedule.
7. The programs tested as major programs included: CFDA #11.307 Economic Development Administration - Economic Adjustment Grant for Military Base Closures.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Iosco County does not qualify as a low-risk auditee.

Findings - Financial Statement Audit

2014-001

Financial Statement Preparation

Condition and Criteria: Accounting principles require personnel of the County have the knowledge to review and determine the financial report and the Schedule of Expenditures of Federal Awards is a complete presentation in accordance with Generally Accepted Accounting Principles. Iosco County's personnel prepare various financial information throughout the year to assess operations and the financial condition of the County. However, prior to the closing of the year end, various entries material to the financial statements were proposed by the external auditors. Also, the County relies on the external auditors to assist in preparing the annual financial report and Schedule of Expenditures of Federal Awards in accordance with Generally Accepted Accounting Principles.

Effect: As a result, the County is considered to have a material weakness, since reporting errors or omissions could occur in the preparation of the annual financial report and Schedule of Expenditures of Federal Awards that would be departures from Generally Accepted Accounting Principles and the County would not be in a position to detect the errors or omissions.

Cause: The County has in the past evaluated the cost vs. benefit of correcting this finding and deemed it in its best interests to outsource the task to its external auditors.

IOSCO COUNTY
Tawas City, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2014

Findings - Financial Statement Audit (Continued)

2014-001 Financial Statement Preparation (Continued)

Context: Iosco County has individuals on staff to review the financial report and Schedule of Expenditures of Federal Awards to ensure they are accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report and Schedule of Expenditures of Federal Awards is a complete presentation in accordance with Generally Accepted Accounting Principles.

Auditor's Recommendation: We recommend the County continue to re-evaluate the cost vs. benefit considerations involved with remedying this situation.

Views of Responsible Officials and Planned Corrective Actions: The County has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the County to outsource this task to its external auditors, and to carefully review the draft financial statements and notes and the Schedule of Expenditures of Federal Awards prior to approving them and accepting responsibility for their content and presentation.

2014-002 Housing Commission Collection Policy

Condition and Criteria: Currently there is no written, formal collection policy for housing commission loan receivables.

Effect: There are several extremely delinquent loans for which little or no action has been enforced.

Cause: The housing commission board has never researched or agreed on a formal policy or plan of action for enforcing loan requirements.

Context: Delinquent housing loan receivables are material to the Housing Commission funds of Iosco County.

Auditor's Recommendation: We recommend that the Housing Commission Board research and adopt a written collection policy and require its employees to strictly enforce the policy for all loans.

Views of Responsible Officials and Planned Corrective Actions: The Iosco County Board of Commissioners will require the Housing Commission Board to research and adopt a formal collection policy during 2015 and will require the enforcement of the policy.

2014-003 Signed Delinquent Tax Roll Affidavit

Condition and Criteria: The General Property Tax Act requires that all tax collecting officers attach an affidavit to the delinquent tax roll stating the aggregate amount of taxes remaining unpaid, the amounts remaining unpaid for each taxing unit and the amount of all moneys collected on account of taxes. For the settlement process of the 2013 taxes, the County did not require the local taxing units to submit an affidavit for the delinquent tax roll.

IOSCO COUNTY
Tawas City, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2014

Findings - Financial Statement Audit (Continued)

2014-003

Signed Delinquent Tax Roll Affidavit (Continued)

Effect: The County is not in compliance with the General Property Tax Act and there is no signed documentation kept by the County to support the amount of delinquent tax payments made to the local taxing units.

Cause: The County began using new software and reports during its settlement of the 2013 taxes, and during the transition to the new reports, did not ensure that a proper affidavit was obtained.

Context: None of the local taxing units signed an affidavit for the 2013 tax year settlement process.

Auditor's Recommendation: We recommend that the County require all local taxing units to sign the affidavit in accordance with the requirements of The General Property Tax Act and keep the affidavit as support for payments made to the local taxing units during settlement.

Views of Responsible Officials and Planned Corrective Actions: Effective with the settlement process for the 2014 taxes, the County will require a signed affidavit for each delinquent tax roll.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ended December 31, 2014.

IOSCO COUNTY, MICHIGAN
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

<u>Federal Grantor or Pass Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Current Year Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through the Michigan Department of Natural Resources: Forest Service	10.665	\$ 106,916
Rural Business Enterprise Fund Grant	10.769	<u>40,949</u>
Total U.S. Department of Agriculture		<u>147,865</u>
<u>U.S. Department of Interior</u>		
Passed through the Michigan Department of Natural Resources: Mineral Management	10.665	6,651
Payment in Lieu of Taxes	15.226	<u>125,344</u>
Total U.S. Department of Interior		<u>131,995</u>
<u>U.S. Department of Commerce</u>		
Economic Development Administration - Economic Adjustment Grant for Military Base Closures	11.307	<u>4,042,302</u>
<u>U.S. Department of Housing and Urban Development</u>		
Passed through Michigan Economic Development Corporation: Community Development Block Grant Revolving Loan Fund	14.228	<u>11,787</u>
Passed through Michigan State Housing Development Authority: Community Development Block Grant MSC-2011-0337-HOA	14.228	98,954
Community Development Block Grant Program Income		48,420
ICHRRLP Revolving Loan Fund		<u>23,358</u>
		<u>170,732</u>
Total U.S. Department of Housing and Urban Development		<u>182,519</u>

The accompanying notes are an integral part of this schedule.

IOSCO COUNTY, MICHIGAN
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

<u>Federal Grantor or Pass Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Current Year Expenditures</u>
<u>U.S. Election Assistance Commission</u>		
Passed through the Michigan Department of State:		
Non-Cash Assistance (Equipment):		
Help America Vote Act	90.401	\$ <u>694</u>
<u>U.S. Department of Health and Human Services</u>		
Child Support Enforcement:		
Passed through the Michigan Department of Human Services:		
Child Support Enforcement Incentive Payment	93.560	<u>33,680</u>
Passed through the Michigan Department of Human Services:		
Prosecuting Attorney CSPA-13-35002	93.563	50,791
Friend of the Court Title IV-D CSFOC-13-35001		<u>309,142</u>
		<u>359,933</u>
Passed through the Michigan Department of Human Services:		
Foster Care Title IV-E PROFC-14-35001	93.658	3,510
Foster Care Title IV-E PROFC-14-35002		<u>1,625</u>
		<u>5,135</u>
Total U.S. Department of Health and Human Services		<u>398,748</u>
<u>U.S. Department of Homeland Security</u>		
Passed through the Michigan Department of Natural Resources:		
2014 Marine Safety Program Grant Agreement	97.012	<u>7,400</u>
Passed through Michigan State Police:		
Emergency Management Performance Grant EMW-2012-EP-00033	97.042	2,763
Emergency Management Performance Grant EMW-2014-EP-00023-S01		<u>9,211</u>
		<u>11,974</u>
Passed through Michigan Region 3 Homeland Security Planning Board:		
2011 State Homeland Security Grant Program EMW-2011-SS-00103	97.067	49,552
2012 State Homeland Security Grant Program EMW-2012-SS-00055		18,590
Non-Cash Assistance (Equipment):		
2011 State Homeland Security Grant Program EMW-2011-SS-00103		1,654
2012 State Homeland Security Grant Program EMW-2012-SS-00055		20,170
2013 State Homeland Security Grant Program EMW-2013-SS-00049		<u>340</u>
		<u>90,306</u>
Total U.S. Department of Homeland Security		<u>109,680</u>
Total Federal Awards		<u>\$ 5,013,803</u>

The accompanying notes are an integral part of this schedule.

IOSCO COUNTY
Tawas City, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the County's federal awards and does not present transactions that would be included in financial statements of the County presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.

2. Reconciliation to financial statements:

Federal revenue presented in the financial statements	\$	771,398
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Amounts due from the State of Michigan that will be recognized as revenue for the year ended December 31, 2015 because they are considered unavailable in the governmental funds.

#93.563 Child Support Enforcement		34,394
#93.568 Foster Care Title IV-E		3,214

Accounts receivable for year ended December 31, 2013, received more than 60 days after year end and recognized as federal revenue in the fiscal year ended December 31, 2014

#97.067 Operation Stone Garden		(27,166)
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Loans receivable for the year ended December 31, 2014 not recognized as federal revenue but recognized as federal award expenditures.

#10.769 Rural Business Enterprise Fund Grant		4,667
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Revolving Loan Fund Capital Base

#11.307 Economic Adjustment Grant for Military Base Closures		3,933,260
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Loan disbursements, write-offs, and administrative expenses made for the year ended December 31, 2014 not recognized as federal revenue, but recognized as federal award expenditures.

#11.307 Economic Adjustment Grant for Military Base Closures		109,042
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Cash balances and admin expenses in revolving loan funds required to be included in the Schedule of Expenditures of Federal Awards per the compliance supplements but, not included as federal revenue in the financial statements.

#10.769 Rural Business Enterprise Fund Grant		36,282
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Loan repayments and interest revenue in revolving loan funds recognized as mortgage repayment and interest revenue but required to be reported on the Schedule of Expenditures of Federal Awards.

#14.228 ICHRRRLP Revolving Loan Fund		23,358
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#14.228 CDBG Revolving Loan Fund passed through the Michigan Economic Development Corporation		11,787
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The accompanying notes are an integral part of this schedule.

IOSCO COUNTY
Tawas City, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2014

Federal Awards passed through the County to other local units of government required to be included on the Schedule of Expenditures of Federal Awards but not recognized as revenue to the County.

#10.665 Mineral Management
 #10.665 Forest Service

6,651
106,916

\$ 5,013,803

3. Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, Iosco County provided federal awards to subrecipients as follows:

CFDA Number: #14.228 Community Development Block Grant Revolving Loan Fund - \$11,787

The accompanying notes are an integral part of this schedule.