

Genesee County

**Report to the Board of Commissioners
September 30, 2008**

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Genesee County

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To the Board of Commissioners
Genesee County

We have recently completed our audit of the basic financial statements of Genesee County (the "Organization") for the year ended September 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the Organization:

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We are grateful for the opportunity to be of service to the Genesee County. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Piante & Moran, PLLC

June 5, 2009

Report on Internal Control

June 5, 2009

To the Board of Commissioners
Genesee County

Dear Board Members:

National auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Organization's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards are to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this **Report on Internal Control** will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Genesee County as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be

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prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Treasurer's Office- Segregation of Duties over General Ledger Access

In general, the Treasurer's Office has proper segregation of duties over the revenue receipting process. Our review identified one exception which is related to the position of accountant whom has the ability to authorize and make wire transfers from bank accounts and also has the ability to post journal entries to the County's general ledger. These are incompatible duties that create a lack of segregation of duties. We recommend that the accountant not have the ability to post transactions to the County's general ledger in order to strengthen internal controls.

Receivables Relating to Properties Transferred to the Land Bank Authority

The Land Bank Authority and the County work as partners to formalize the transfer of properties to the Authority whenever purchased by or donated to the Land Bank Authority. Prior to, and during 2008, properties were transferred to the Land Bank Authority for which the County did not record a receivable due from the Authority. However, the Land Bank Authority had recorded a payable due to the County. As a result, there was a significant audit adjustment needed to record the receivable in the Delinquent Tax Revolving fund of the County. We recommend that the County record receivables due from the Authority or others whenever the transactions occur.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

Recording of Accounts Payable

During testing of accounts payable at year end we noted errors in recording of accounts payable. Commitments for goods ordered but not yet received were improperly considered as payables and there were items that were Fiscal Year (FY) 2009 expenses that were improperly included as FY 2008 payables/expenses. The errors appear to result from a misunderstanding of what types of items can be considered accounts payable at year end. Audit adjustments were necessary to correct the errors. We will work with the Controller's department staff to assist in clarifying the items that meet the criteria to be accrued as accounts payable.

Capital Assets

During our testing of the County's schedules supporting capital assets, we noted various errors. The details in many cases didn't agree with the summary schedule from which totals are used for reporting purposes. We understand that the accounting for capital assets has been an ongoing difficult task given the large volume of transactions and the systems available to accomplish the

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tasks. The Controller's department began using the GEMS software program to account for capital assets; however, there are still difficulties in the process. We recommend that a supervisory review of the detail schedules as compared with the overall summary schedule be done annually to assure that the totals agree.


Restatements of Fund Balances

There were some restatements needed of fund balances/net assets of certain funds reported in the CAFR. Those restatements are detailed in the Notes to the CAFR. A couple of the restatements are related to component units that are included in to the County's CAFR while one restatement is not. Restatements are considered matters that need to be communicated in the report on internal control and therefore, they are being included in this report.

This communication is intended solely for the information and use of management, the board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Tadd Harburn, CPA

Results of the Audit

June 5, 2009

To those charged with governance
Genesee County

We have audited the financial statements of Genesee County for the year ended September 30, 2008, and have issued our report thereon dated June 5, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 22, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Genesee County. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of Genesee County's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under those *Government Auditing Standards*, we have made some assessments of Genesee County's compliance with certain provisions of laws, regulations, contracts and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated June 5, 2009 regarding our consideration of the Genesee County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of Genesee County, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* requires disclosure of illegal acts to applicable government

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agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on January 9, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Genesee County are described in Note B to the financial statements. As described in the Notes, the County changed accounting policies related to Other Post-Employment Benefits (OPEB) by adopting Governmental Accounting Standards Board (GASB) No. 45, Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions, in 2008. Disclosures of the Unfunded Actuarial Accumulated Liability at September 30, 2008 have been included and also the current year payments to the VEBA trust compared to the actuarial computed Annual Required Contribution (ARC) resulted in a net other postemployment obligation being recorded on the Government-Wide Statement of Net Assets.

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were 1) useful lives of capital assets, 2) claims liability for "Incurred but not reported" (IBNR) claims relative to the Self-Insurance Fund, and 3) assumptions used in the actuarial calculation of the OPEB Unfunded Actuarial Accumulated Liability.

Useful lives of the capital assets are based on management's estimate of their lives and consistent with industry standards. Claims for IBNR are based on an actuarial calculation based on historical trend data. OPEB liability is based on an actuarial calculation using assumptions for healthcare cost increases, and investment income percentages consistent with recent historical

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trends for each. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

In general, we encountered no significant difficulties in dealing with management in performing and completing our audit except for the delay in the receipt of the OPEB actuarial valuation for the year ended September 30, 2008. The lack of availability of this information caused the audit submission to the State to be delayed beyond the state imposed six month deadline. This delay will require that the County submit to the State Department of Treasury- Municipal Finance Division an application requesting State approval for each new debt issue during 2009 as opposed to obtaining a one-year preapproved certification that normally is available if certain criteria are met.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, the following material misstatement detected as a result of audit procedures was corrected by management: Restatement of fund balances and net assets- 1) Related to the debt issued for the Land Bank, initially the debt was accounted for as governmental fund debt rather than as proprietary fund debt. The transaction should have been reported as proprietary debt because the repayment was and is expected from delinquent tax transactions and activity. Restatements were necessary to record the debt within the DTR fund, move cash and fund balance of the capital projects fund into DTR, and to record an Accounts receivable from the Land Bank Authority for repayment of loans to DTR, 2) Inclusion of Storm Water management system component unit that should have been included in prior years.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 5, 2009.

To the Board of Commissioners
Genesee County

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the organization’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

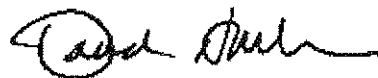
Other Information in Documents Containing Audited Financial Statements

Our responsibility relates to the organization’s financial statements and other information as identified in the auditor’s report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

This information is intended solely for the use of those charged with governance and management of Genesee County and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Tadd Harburn", written in a cursive style.

Tadd Harburn, CPA

Client: **Genesee County**
 Opinion Unit: **Aggregate Remaining Fund Information**
 Y/E: **9/30/2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to Increase (Decrease) the reported amounts in the financial statement categories identified below:

| Ref. # | Description of Misstatement | Current Assets | Revenue | Expenses | Pretax Income |
|------------------------------|---|---------------------|--------------------|-------------------|---------------------|
| KNOWN MISSTATEMENTS: | | | | | |
| A1 | Fund 656 depreciation expense from detail | \$ (1,516) | | \$ 1,516 | \$ (1,516) |
| A2 | Fund 666 depreciation expense from detail | (134,752) | | 134,752 | (134,752) |
| ESTIMATE ADJUSTMENTS: | | | | | |
| B1 | Allowance for uncollectable property taxes. Estimate is based on Delinquent taxes purchased during FY 2008. | (107,195) | \$(107,195) | | (107,195) |
| B2 | | | | | |
| IMPLIED ADJUSTMENTS | | | | | |
| C1 | | | | | - |
| C2 | | | | | - |
| | Combined Effect – Before Income Taxes | (243,463) | (107,195) | 136,268 | (243,463) |
| | Effect of Income Taxes | - | - | - | - |
| | Total | <u>\$ (243,463)</u> | <u>\$(107,195)</u> | <u>\$ 136,268</u> | <u>\$ (243,463)</u> |

Other Recommendations

Agreement for Repayment of Interest between Land Bank Authority and the County

Relative to the amount of interest to be paid on the debt service of the LRC Capital improvement bonds principal of which totals \$2,900,000 there is an 'unwritten understanding' that the interest is to be paid by the Land Bank Authority since the funds were transferred to the Authority to buy and rehab properties. No receivable has been booked in the DTR (LRC fund) Fund or by the Authority as there is no legal document between the Authority and the County that makes the Authority responsible for the interest expense. Based on conversation with the Authority's Controller, the Authority expects to pay the County for the interest. We recommend that the County draft and enact a legal agreement with Land Bank Authority specifying the obligation to pay and the payment terms in order to clarify the issue.

Property Tax Software Program Data vs. the General Ledger

When auditing the details of the delinquent tax revolving program (BS&A) relative to receivables at September 30, 2008 compared to the general ledger we noted that a large adjustment was made by the Treasurers department to bring the general ledger into agreement with the details per the property tax software. Management indicated that the adjustment is needed to update the general ledger for items such as MTT, Board of Review, and other property tax adjustments that get applied to the BS&A software but not also to the general ledger. We recommend that detail to support adjustments be retained and readily available for adjustments made to the general ledger.

