Calhoun County, Michigan

Year Ended December 31, 2011

Single Audit Act Compliance

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CALHOUN COUNTY, MICHIGAN

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

June 22, 2012

Honorable Members of the
Board of Commissioners
of Calhoun County, Michigan
Marshall, 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 *Calhoun County, Michigan (*the "County"), as of and for the year ended December 31, 2011, which collectively comprise the basic financial statements, and have issued our report thereon dated June 22, 2012. 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, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2011

	Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
	U.S. Department of Agriculture				
	Child Nutrition Cluster:				
	School Breakfast Program	10.553	MDE	n/a	$ 18,045
	National School Lunch Program	10.555	MDE	n/a	27,536
	Snack Program	10.555	MDE	n/a	3,404
	Food Donation - Entitlement Commodities (noncash)	10.555	MDE	n/a	1,498
					50,483
*	Women Infant and Children	10.557	MDCH	1107390-00	745,823
	Total U.S. Department of Agriculture				796,306
	U.S. Department of Justice				
	Office of Justice Programs, BJA	16.585	Direct	2011-DC-BX-0109	14,767
	Office of Justice Programs, BJA	16.606	Direct	n/a	5,929
	Community Oriented Policing Services	16.710	Direct	n/a	60,811
	Juvenile Accountability Block Grant	16.523	MDHS	n/a	16,481
	Title V Planning Grant	16.548	MDHS	20079-1-09-B	4,163
	Adult Drug Court - Edward Bryne Memorial Assistance Grant Program	16.738	MSC	20079-1-09-B	26,302
	Total U.S. Department of Justice				128,453
	U.S. Department of Transportation				
	State and Community Highways Safety Cluster:				
	Safe Communities Grant	20.600	MOHSP	2010-PT-11-03	11,017
	Safe Communities Grant	20.600	MOHSP	2011-PT-12-21	2,181
	SCAO/MDCGP DWI Grant Program	20.601	MSC	SCAO-2011-28	19,973
	SCAO/OHSP DWI Grant Program	20.601	MSC	SCAO-2011-051	60,000
	SCAO/OHSP DWI Grant Program	20.601	MSC	SCAO-2012-054	13,098
	Total U.S. Department of Transportation				106,269
	U.S. Department of Energy				
	ARRA - Energy Efficiency and Conservation Block Grant Program and Multi-Purpose Grant	81.128	Direct	BES-10-060	52,718
	U.S. Department of Education				
	Governor's Discretionary Grant - 2010/2011	84.186a	MDE	n/a	10,308

continued...

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2011

	Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
	U.S. Department of Health and Human Services				
	Immunization Cluster:				
*	Immunization - Vaccines (noncash)	93.268	MDCH	n/a	$ 388,077
*	Immunization - IAP	93.268	MDCH	n/a	64,527
*	ARRA - Immunization - Vaccines (noncash)	93.712	MDCH	n/a	35,465
					488,069
	Public Health Emergency Preparedness:				
*	Bioterrorism 10/1/10 - 7/31/11	93.069	MDCH	n/a	120,536
*	Bioterrorism 8/1/11 - 9/30/11	93.069	MDCH	n/a	20,667
*	H1N1 Pan Flu 10/1/10 - 7/30/11	93.069	MDCH	n/a	108,533
					249,736
*	Michigan Home Visiting	93.505	MDCH	n/a	2,944
	Medical Assistance Program:				
*	CSHCS Medicaid Outreach	93.778	MDCH	n/a	177
*	Medicaid Outreach	93.778	MDCH	n/a	50,642
*	Nurse Family Partnership Medicaid Outreach	93.778	MDCH	n/a	176,177
					226,996
*	HIV Prevention	93.940	MDCH	n/a	32,947
	Maternal & Child Health Services Block Grants to the States:				
*	Fetal Infant Morality Review Case Abstraction	93.994	MDCH	n/a	3,240
*	Immunization Action Plan	93.994	MDCH	n/a	25,429
*	Local MCH	93.994	MDCH	n/a	5,086
					33,755
	Child Support Enforcement Cluster:				
*	Title IV-D - CRP Friend of the Court	93.563	MDHS	CS/FOC-11-13001	1,454,135
*	Title IV-D - CRP Friend of the Court	93.563	MDHS	CS/FOC-12-13001	603,468
*	Title IV-D - CRP Prosecuting Attorney	93.563	MDHS	CS/PA-11-13002	213,262
*	Title IV-D - CRP Prosecuting Attorney	93.563	MDHS	CS/PA-12-13002	80,977
*	Performance Incentive Payment	93.563	MDHS	n/a	266,037
					2,617,879
*	Low Income Home Energy Assistance	93.658	MDHS	PROFC-11-23001	44,253
	Total U.S. Department of Health and Human Services				3,696,579

continued...

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2011

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Federal Expenditures
U.S. Department of Homeland Security				
Boating Safety Financial Assistance - MDNRE	97.012	MSP	n/a	$ 37,090
Emergency Management Performance Grant	97.067	MSP	n/a	27,234
Homeland Security Program Grant:				
State Homeland Security Grant - 2006	97.067	MSP	n/a	94,984
Michigan Citizen Corp Grant	97.067	Van Buren	n/a	6,768
				101,752
Total U.S. Department of Homeland Security				166,076
Total Expenditures of Federal Awards				$ 4,956,709

See notes to the schedule of expenditures of federal awards.

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 Calhoun County, Michigan (the "County") under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net assets or cash flows of the County.

The County's reporting entity is defined in Note 1 of the County's basic financial statements. The County's financial statements include the operations of the Calhoun County Road Commission, a discretely-presented component unit, which received federal awards that are not included in the Schedule for the year ended December 31, 2011, 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 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. FISCAL REPORTING

Certain departments report on a different fiscal year than the County. Grants accounted for and reported on year-ends other than December 31, 2011 are denoted as such in the Schedule with an asterisk (*) for September 30 year ends.

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
MDE	Michigan Department of Education
MDCH	Michigan Department of Community Health
MSC	Michigan Supreme Court
MOHSP	Michigan Office of Highway Safety Planning
Van Buren	Van Buren County, Michigan
MDHS	Michigan Department of Human Services

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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*

June 22, 2012

Honorable Members of the
Board of Commissioners
of Calhoun County, Michigan
Marshall, 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 Calhoun County, Michigan (the "County"), as of and for the year ended December 31, 2011, which collectively comprise the basic financial statements of the County, and have issued our report thereon dated June 22, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of the Medical Care Facility Enterprise Fund were not audited in accordance with Government Auditing Standards.

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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2011-FS-01 which we consider to be significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe that 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 Calhoun County, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Calhoun County, Michigan in a separate letter dated June 22, 2012.

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

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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

June 22, 2012

Honorable Members of the
Board of Commissioners
Calhoun County, Michigan
Marshall, Michigan

Compliance

We have audited *Calhoun County, Michigan's* compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Calhoun County, Michigan's major federal programs for the year ended December 31, 2011. 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.

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 Calhoun County, Michigan'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. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County 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 December 31, 2011.

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.

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

Rehmann Robson

CALHOUN COUNTY, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified?	X	yes		none reported
Noncompliance material to financial statements noted?		yes	X	no

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		yes	X	no
Significant deficiency(ies) identified?		yes	X	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)?		yes	X	no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000			
Auditee qualified as low-risk auditee?	X	yes		no

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

2011-FS-01 Preparation of Financial Statements in Accordance with GAAP - Significant Deficiency in Internal Control Over Financial Reporting (Repeat Comment)

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

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

Cause: This condition was caused by the County's decision that it is more cost effective to outsource the preparation of the footnotes related to its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government lacks internal controls over the preparation of the footnotes of its financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Management's response: The County has evaluated the cost vs. benefit of establishing internal controls over the preparation of the footnotes to the financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft footnotes of the financial statements prior to approving them and accepting responsibility for their content and presentation.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2011

Finding 2010-1 – Preparation of Financial Statements in Accordance with GAAP

The County is required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). The County's has decided that it is more cost effective to outsource the preparation of the footnotes related to its annual financial statements to the auditors than to incur the time and expense.

This finding is repeated in the current year as finding 2011-FS-01.

Finding 2010-2 – Subrecipient Monitoring – CFDA # 16.710 – Public Safety Partnership and Community Policing Grant

The County did not obtain the audit reports for its subrecipients nor did it identify the CFDA number to its subrecipients.

This finding has been adequately resolved.

Finding 2010-3 – Suspended and Debarred Parties – CFDA # 93.563 – Child Support Enforcement

Although the County has proper internal controls in place for checking suspension and debarment for new vendors, the County lacks the internal controls over pre-existing contracts.

This finding has been adequately resolved.

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