

COUNTY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2023

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

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

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 and type of auditors' report issued on compliance for each major program:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds	Unmodified
93.926	Healthy Start Initiative	Unmodified

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

\$ 984,366

Auditee qualified as low-risk auditee?

yes X no

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For the Year Ended December 31, 2023

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-001 – Material Audit Adjustments (Repeat Finding)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. In addition to various other adjustments, multiple material audit adjustments were identified in order to properly record year-end balances. Material audit adjustments included the following areas:

- to adjust Airport capital assets
- to record interest receivable and income on delinquent taxes
- to record federal revenue and receivables for Airport grants
- to record retainage payable and related capital assets in the Airport
- to adjust special assessments receivable and related deferred inflows of resources
- to record debt proceeds and related capital activity within the Drainage Districts component unit
- to adjust current year lease activity

Cause. This condition was the result of internal controls not detecting all adjustments necessary to properly record year-end balances.

Effect. As a result of this condition, the County's accounting records were initially misstated by amounts material to the financial statements.

Recommendation. We recommend that the County prepare, review, and reconcile all year-end schedules that are used in financial reporting prior to audit fieldwork.

View of Responsible Officials. The Finance Director recognizes and agrees with the findings and recommendations of the auditors regarding material audit adjustments. The Finance Department will work with the appropriate administrative personnel in the affected departments, including the Airport, Treasurer's office, Drain Commissioner's office, to ensure that proper journal entries are made at year-end prior to audit fieldwork.

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Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2023

2023-002 – Reconciliation of Cash and Investments (Repeat Finding)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Timely preparation and review of bank reconciliations will help ensure that all related accounting transactions are recorded on a timely basis and that all reconciling items are efficiently identified and resolved. In addition, the State of Michigan recommends that bank reconciliations be completed within approximately six weeks of each month and year-end.

Condition. Throughout our audit procedures over cash and investments, we observed that the County was still reconciling several cash and investment accounts several months after fiscal year end. We also noted several reconciliations which had not been initiated prior to the start of the audit, including certain accounts which had not been reconciled over the duration of the entire fiscal year. In addition, we noted various errors within the reconciliations that resulted in subsequent audit adjustments. Finally, we noted that certain reconciliations were not being reviewed, or evidence of that review was not documented in writing.

Cause. This condition appears to be due to the lack of sufficient processes within the Treasurer's and certain other departments over cash and investments to ensure that bank reconciliations and investment accounts are being reconciled timely.

Effect. As a result of this condition, the County is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Recommendation. As cash and investment bank account reconciliations are an important internal control to detect potential misstatements, we recommend that the County complete bank account reconciliations on a timely basis, and ensure that an independent review of each reconciliation is being completed and documented.

View of Responsible Officials. The Treasurer recognizes and agrees with the findings and recommendations of the auditors regarding reconciliation of cash and investments. Work is ongoing to resolve the reporting backlogs in bank and investment reconciliations that, once complete, will allow the department to reconcile both procedures within the State of Michigan's recommended six-week timeframe. Furthermore, planned process improvements aim to implement daily bank reconciliation activity to complete these tasks well-in-advance of the recommended guidelines.

COUNTY OF KALAMAZOO, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2023

2023-003 – Reconciliation of Subsidiary Ledgers (Repeat Finding)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. In order to determine whether balances recorded in the general ledger are accurate, the County should perform periodic reconciliations of subsidiary ledgers and supporting documentation to the underlying general ledger accounts.

Condition. We observed various audit areas that lacked timely and accurate reconciliation of subsidiary ledgers and other supporting documentation. These areas included, but were not limited to, Airport accounts receivable and accounts payable, benefits payable in accrued liabilities, and certain Drainage Districts (801/802) account balances.

Cause. This condition was caused by the absence of a standard procedure for reconciling accounts to their subsidiary detail for the above audit areas on a timely basis.

Effect. As a result of this condition, the County's accounting records were initially misstated by amounts which in many instances were material or significant to the financial statements. In addition, such unreconciled balances increase the risk that amounts may be materially misstated, whether by error or fraud, and remain undetected by management.

Recommendation. We recommend that the County reconcile all balance sheet accounts to subsidiary detail at least monthly, and follow-up on any variances in a timely manner. All such reconciliations should be independently reviewed, signed and dated, as evidence of this control.

View of Responsible Officials. The Treasurer agrees with the findings and recommendations of the auditors regarding reconciliation of subsidiary ledgers. The department will strive to reconcile all treasury-related balance sheet accounts to the subsidiary detail on a quarterly basis and will follow-up on any variances in a timely fashion. Planned process improvements aim to reconcile appropriate balance sheet activity on a monthly basis through workpapers that directly tie to the general ledger. These workpapers, along with their associated supporting documents, will be compiled and provided to the Finance Director for review.

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Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2023

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

COUNTY OF KALAMAZOO, MICHIGAN

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2023

2022-001 – Material Audit Adjustments

During the audit, multiple adjustments were identified in order to properly record year-end balances. This finding has been repeated as 2023-001.

2022-002 – Reconciliation of Cash and Investments

The County was still reconciling cash and investment accounts several months after fiscal year end, and reconciliations were not being fully completed in a timely manner during the fiscal year. Additionally, the audit noted that the County needed to record an adjustment of approximately \$160,000 in order to balance cash and investments to the general ledger. This finding has been repeated as 2023-002.

2022-003 – Reconciliation of Subsidiary Ledgers

Various audit areas lacked timely and accurate reconciliation of subsidiary ledgers and other supporting documentation from the Treasurer's department. These areas included cash and investments, delinquent taxes receivable, and undistributed receipts. This finding has been repeated as 2023-003.





Corrective Action Plan

Pursuant to federal regulations, Uniform Administrative Requirements Section 200.511, the following are the findings as noted in the County of Kalamazoo, Michigan Single Audit report for the year ended December 31, 2023, and corrective actions to be completed.

2023-001 – Material Audit Adjustments

Auditor Description of Condition and Effect. In addition to various other adjustments, multiple material audit adjustments were identified in order to properly record year-end balances. As a result of this condition, the County's accounting records were initially misstated by amounts material to the financial statements.

Auditor Recommendation. We recommend that the County prepare, review, and reconcile all year-end schedules that are used in financial reporting prior to audit fieldwork.

Corrective Action. The Finance Director recognizes and agrees with the findings and recommendations of the auditors regarding material audit adjustments. The Finance Department will work with the appropriate administrative personnel in the affected departments, including the Airport, Treasurer's office, Drain Commissioner's office, to ensure that proper journal entries are made at year-end prior to audit fieldwork.

Responsible Person. Ryan Post, Finance Director

Anticipated Completion Date. December 31, 2024

2023-002 – Reconciliation of Cash and Investments

Auditor Description of Condition and Effect. Throughout our audit procedures over cash and investments, we observed that the County was still reconciling several cash and investment accounts several months after fiscal year end. We also noted several reconciliations which had not been initiated prior to the start of the audit, including certain accounts which had not been reconciled over the duration of the entire fiscal year. In addition, we noted various errors within the reconciliations that resulted in subsequent audit adjustments. Finally, we noted that certain reconciliations were not being reviewed, or evidence of that review was not documented in writing. As a result of this condition, the County is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Auditor Recommendation. As cash and investment bank account reconciliations are an important internal control to detect potential misstatements, we recommend that the County complete bank account reconciliations on a timely basis, and ensure that an independent review of each reconciliation is being completed and documented.

Corrective Action. The Treasurer recognizes and agrees with the findings and recommendations of the auditors regarding reconciliation of cash and investments. Work has been completed to resolve the reporting backlogs in bank and investment reconciliations which allow the department to reconcile both procedures within the State of Michigan's recommended six-week timeframe. Furthermore, process improvements have been implemented to allow daily bank reconciliation activity to complete these tasks well-in-advance of the recommended guidelines.

Responsible Person. Thomas Whitener, Treasurer

Anticipated Completion Date. December 31, 2024

2023-003 – Reconciliation of Subsidiary Ledgers

Auditor Description of Condition and Effect. We observed various audit areas that lacked timely and accurate reconciliation of subsidiary ledgers and other supporting documentation. These areas included, but were not limited to, Airport accounts receivable and accounts payable, benefits payable in accrued liabilities, and certain Drainage Districts (801/802) account balances. As a result of this condition, the County's accounting records were initially misstated by amounts which in many instances were material or significant to the financial statements. In addition, such unreconciled balances increase the risk that amounts may be materially misstated, whether by error or fraud, and remain undetected by management.

Auditor Recommendation. We recommend that the County reconcile all balance sheet accounts to subsidiary detail at least monthly, and follow-up on any variances in a timely manner. All such reconciliations should be independently reviewed, signed and dated, as evidence of this control.

Corrective Action. The Finance Director agrees with the auditors' findings and recommendations regarding the reconciliation of subsidiary ledgers, which the impacted areas include (1) Benefits Fund, (2) the Drain District Fund and the Drain Revolving Fund, and (3) the Airport Fund.

In the Benefits Fund, there was an unsupported balance in the accounts receivable account, that was due to the payroll being transitioned from Eden to Munis in October 2023. It was discovered that the Supplemental Life Insurance deduction was improperly coded during the implementation and was corrected in May 2024.

In the Drain Revolving Fund, there was a balance in accounts receivable that was set aside with a corresponding balance in accounts payable in the Drain District Fund. Due to new staff and assignments, we were unaware that this entry was necessary to clear the accounts payable balance. This entry has been made and posted in January 2024.

In the Airport Fund, the subsidiary ledger did not reconcile to the accounts receivable balance within the new ERP. This is related to the conversion from Eden to Munis resulting with the lack of capabilities to reconcile the general billing module on account balance program. The customer on account balances

has since been verified and reconciled for 2024.

Responsible Person. Ryan Post, Finance Director

Anticipated Completion Date. December 31, 2024

COUNTY OF KALAMAZOO, MICHIGAN

Attachment A – Comments and Recommendations

For the December 31, 2023 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding these matters. Our consideration of the County's internal control over financial reporting is described in our report, dated June 25, 2024, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated June 25, 2024, on the financial statements of the County of Kalamazoo, Michigan.

Credit Cards

We noted that the County has credit cards in place, but that the processing of credit card transactions does not appear to be consistent with the documented policies. We also noted a credit card transaction that was charged in error by a vendor that was approved and paid, but was not assigned to a general ledger account or reviewed for several months. Finally, we noted a personal charge transaction that was invertedly charged to an employee's credit card (this was subsequently reimbursed to the County). We recommend that the County ensure that the written policies over credit cards and actual procedures are in agreement, and only County related charges are charged to credit cards and accounted for properly in the general ledger.

Escheating of Outstanding Checks

We noted in certain bank account reconciliations various checks that had been outstanding for several years. The State of Michigan directs that “holders of unclaimed or uncalled for property (example outstanding checks) can divest themselves of responsibility and accountability for such property by transferring such property to Escheats Division, Department of Treasury.” We recommend that the County remit all such outstanding checks that fall under these requirements, and that the County review the requirements for escheating outstanding checks and update its current processes and procedures accordingly.

Compliance with the Uniform Budgeting Manual

In adopting the final amended budgets for the year, the County budgeted for multiple fund's expenditures to exceed revenue and fund balance reserve. The Uniform Budgeting Manual requires that a local unit of government ensure that the estimated total expenditures, including an accrued deficit, do not exceed total estimated revenues, including an available surplus and the proceeds from bonds or other obligations issued under the Fiscal Stabilization Act. We recommend that the County review its budget policies to avoid budgeted deficits.

