

## INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

June 30, 2020

Honorable Members of the  
Board of Commissioners  
of Lenawee County, Michigan  
Adrian, 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 *Lenawee County, Michigan* (the "County") as of and for the year ended December 31, 2019, and have issued our report thereon dated June 30, 2020. Our report includes a reference to other auditors who audited the financial statements of the Lenawee County Road Commission and Lenawee Transportation Corporation, as described in our report on the County's financial statements. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated February 6, 2020, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also 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 for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated June 30, 2020. In addition, we noted certain other matters which are included in Attachment A to this letter.

#### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters.

#### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

#### **Qualitative Aspects of the County's Significant Accounting Practices**

##### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the County is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

##### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.

- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.
- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

#### **Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

#### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements detected as a result of audit procedures and corrected by management are described in the Schedule of Findings and Questioned Costs issued in connection with the Single Audit.

The schedule of adjustments passed is included with management's written representations in Attachment C to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the County's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

#### **Representations Requested from Management**

We have requested certain written representations from management, which are included in Attachment C to this letter.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the County's auditors.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### **Upcoming Changes in Accounting Standards**

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of *Lenawee County, Michigan* and is not intended to be and should not be used by anyone other than these specified parties.

# LENAWEE COUNTY, MICHIGAN

## Attachment A - Comments and Recommendations

For the December 31, 2019 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 those matters. Our consideration of the County's internal control over financial reporting is described in our report, dated June 30, 2020, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated June 30, 2020, on the financial statements of Lenawee County.

### Internal Controls and Reconciliation Process for the Probate Court (repeat comment)

As a part of additional services in a prior year, we performed an evaluation of the policies and procedures and reconciled the liability of the probate restitution account. Several recommendations for internal control improvements were made along with reconciliation procedures. During the audit, we noted the County is currently in the process of drafting the written policies and procedures, but they have not been formally adopted and implemented by the County. We recommend the County complete and formally adopt the written policies and procedures and ensure the recommendations that we made are included.

*Management's Response.* The County is in the process of evaluating procedures and policies that will streamline restitution payments to victims. We are also including central administration services to evaluate and provide internal control in this process.

### Equalization Department (repeat comment)

During the audit, we noted the equalization department does not have any written policies or procedures in place in regards to internal controls. Additionally, we noted the petty cash procedures do not have a separate individual reviewing the petty cash request when the individual making the petty cash request is both the account custodian and the department head. We recommend the County implement written policies and procedures for the equalization department and that includes a requirement for an independent review of each petty cash request.

*Management's Response.* The County has evaluated the policies and procedures and is working towards implementing written policies and procedures for internal controls. Additionally, the petty cash policy for Equalization will be reviewed to strengthen the internal controls

### Special Revenue Fund 290 - Social Services

Under GASB 54, special revenue funds should be used only to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes (other than those accounted for in debt service or capital projects funds). These specific revenue sources must be external (i.e., interfund transfers do not qualify), and must comprise a substantial portion of the fund's ongoing inflows. Funds no longer meeting this definition will need to be collapsed into the general fund (at least for external financial reporting purposes). The special revenue fund that we noted in the financial statements does not appear to qualify under the GASB 54 definition is the social services fund.

# LENAWEE COUNTY, MICHIGAN

## Attachment A - Comments and Recommendations

For the December 31, 2019 Audit

*Management's Response.* The County agrees that Fund 290 no longer qualifies as a special revenue fund, and we need to address this. We are currently evaluating our options on where our social services fund should reside.

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# LENAWEE COUNTY, MICHIGAN

## Attachment B - Upcoming Changes in Accounting Standards / Regulations

For the December 31, 2019 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the County in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the County. For the complete text of these and other GASB standards, visit [www.gasb.org](http://www.gasb.org) and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

### **GASB 83 ■ Certain Asset Retirement Obligations**

*Effective 06/15/2020 (your FY 2020)*

This standard addresses accounting and financial reporting for certain asset retirement obligations--legally enforceable liabilities associated with the retirement of a tangible capital asset. We do not expect this standard to have any significant effect on the County.

### **GASB 84 ■ Fiduciary Activities**

*Effective 12/15/2020 (your FY 2020)*

This standard establishes new criteria for determining how to report fiduciary activities in governmental financial statements. The focus is on whether the government is controlling the assets, and who the beneficiaries are. Under this revised standard, certain activities previously reported in agency funds may be reclassified in future periods.

### **GASB 87 ■ Leases**

*Effective 06/15/2022 (your FY 2022)*

This standard establishes a single model for reporting all leases (including those previously classified as operating and capital). Lessees will now report offsetting intangible lease assets and lease liabilities equal to the present value of future lease payments. Lessors will report offsetting lease receivables and deferred inflows of resources.

### **GASB 89 ■ Accounting for Interest Cost Incurred before the End of a Construction Period**

*Effective 12/15/2021 (your FY 2021)*

This standard eliminates the requirement for governments to capitalize interest during the construction period for business-type activities. As this simplifies the accounting for interest, early implementation is encouraged. We do not expect this standard to have any significant effect on the County.

### **GASB 91 ■ Conduit Debt Obligations**

*Effective 12/15/2022 (your FY 2022)*

This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is more likely than not that a commitment made by the issuer will require it to support one or more debt payments for a conduit debt obligation. We do not expect this standard to have any significant effect on the County.

# LENAWEE COUNTY, MICHIGAN

## ■ Attachment B - Upcoming Changes in Accounting Standards / Regulations For the December 31, 2019 Audit

### **GASB 92 ■ Omnibus 2020**

*Effective 06/15/2022 (your FY 2022)*

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the County.

### **GASB 93 ■ Replacement of Interbank Offered Rates**

*Effective 06/15/2022 (your FY 2022)*

This standard provides guidance to governments with agreements with variable payments tied to LIBOR, and how to transition them to a new reference rate. We do not expect this standard to have any significant effect on the County.

### **GASB 94 ■ Public-Private and Public-Public Partnerships and Availability Payment Arrangements**

*Effective 06/15/2023 (your FY 2023)*

This standard addresses accounting and financial reporting for arrangements in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a capital asset for a period of time in an exchange or exchange-like transaction. We do not expect this standard to have any significant effect on the County.

### **GASB 96 ■ Subscription-Based Information Technology Arrangements**

*Effective 06/15/2023 (your FY 2023)*

This standard expands on the new guidance for leases and applies it to computer software contracts (subscriptions) with similar characteristics. Governments that subscribe to a vendor's IT software will now report offsetting intangible subscription assets and subscription liabilities equal to the present value of future subscription payments.





# LENAWEE COUNTY, MICHIGAN

## Attachment C - Management Representations

For the December 31, 2019 Audit

The following pages contain the written representations that we requested from management.

# LENAWEE COUNTY, MICHIGAN

## Schedule of Adjustments Passed (SOAP)

For the December 31, 2019 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
<b>General fund</b>					
Worker's compensation accrued liability overstated in the prior year	\$ -	\$ -	\$ (16,317)	\$ -	\$ (16,317)
<b>Nonmajor Governmental funds</b>					
Indigent defense grant revenue overstated in the prior year	-	-	161,271	(161,271)	-
Worker's compensation accrued liability overstated in the prior year	-	-	(11,308)	-	(11,308)
<b>Cumulative effect of items noted above</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,646</u>	<u>\$ (161,271)</u>	<u>\$ (27,625)</u>
<b>Misstatement as a percentage of total assets - Governmental Activities</b>	<u>0.00%</u>	<u>0.00%</u>	<u>0.20%</u>	<u>-0.24%</u>	<u>-0.04%</u>
<b>Component Units</b>					
<b>Drain Commission</b>					
Capital assets improperly expensed in the prior year (capitalized in the current year)	\$ -	\$ -	\$ (143,158)	\$ -	\$ (143,158)
<b>Misstatement as a percentage of total assets - Component Units</b>	<u>0.00%</u>	<u>0.00%</u>	<u>-0.09%</u>	<u>0.00%</u>	<u>-0.09%</u>