

**Genesee County Drain Commissioner  
Division of Water and Waste Services**

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**Federal Awards  
Supplemental Information  
December 31, 2006**

# **Genesee County Drain Commissioner Division of Water and Waste Services**

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## Independent Auditor's Report

Mr. Jeff Wright  
Genesee County Drain Commissioner  
Division of Water and Waste Services  
Flint, Michigan

We have audited the financial statements of the Enterprise Fund and Internal Service Fund of Genesee County Drain Commissioner Division of Water and Waste Services (a component unit of Genesee County, Michigan) (the "Division") for the year ended December 31, 2006, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated June 27, 2007. Those basic financial statements are the responsibility of the management of Genesee County Drain Commissioner Division of Water and Waste Services. Our responsibility was to express an opinion on those basic financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Genesee County Drain Commissioner Division of Water and Waste Services taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

June 27, 2007

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*

Mr. Jeff Wright  
Genesee County Drain Commissioner  
Division of Water and Waste Services  
Flint, Michigan

We have audited the financial statements of the Enterprise Fund and Internal Service Fund of Genesee County Drain Commissioner Division of Water and Waste Services (a component unit of Genesee County, Michigan) (the "Division") as of and for the year ended December 31, 2006, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated June 27, 2007. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Genesee County Drain Commissioner Division of Water and Waste Services' internal control over financial reporting 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 Genesee County Drain Commissioner Division of Water and Waste Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Genesee County Drain Commissioner Division of Water and Waste Services' internal control over financial reporting.

Our consideration of internal control over financial reporting 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 over financial reporting that we consider to be significant deficiencies.

Mr. Jeff Wright  
Genesee County Drain Commissioner  
Division of Water and Waste Services  
Flint, Michigan

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 prevented or detected by the entity's internal controls. We consider the control deficiencies described in the accompanying schedule of findings and questioned costs as items 2006-1, 2006-2, 2006-3, and 2006-4 to be significant deficiencies in internal control over financial reporting.

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. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Genesee County Drain Commissioner Division of Water and Waste Services' 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*.

Genesee County Drain Commissioner Division of Water and Waste Services' response to the significant deficiencies and findings relating to compliance and other matters identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Mr. Jeff Wright  
Genesee County Drain Commissioner  
Division of Water and Waste Services  
Flint, Michigan

This report is intended solely for the information and use of management, federal awarding agencies, and other pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

June 27, 2007

Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control  
Over Compliance in Accordance with OMB Circular A-133

Mr. Jeff Wright  
Genesee County Drain Commissioner  
Division of Water and Waste Services  
Flint, Michigan

## Compliance

We have audited the compliance of Genesee County Drain Commission Division of Water and Waste Services with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2006. The major federal program of Genesee County Drain Commissioner Division of Water and Waste Services is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Genesee County Drain Commissioner Division of Water and Waste Services' management. Our responsibility is to express an opinion on Genesee County Drain Commissioner Division of Water and Waste Services' 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 Genesee County Drain Commissioner Division of Water and Waste Services' 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 on Genesee County Drain Commissioner Division of Water and Waste Services' compliance with those requirements.

In our opinion, Genesee County Drain Commissioner Division of Water and Waste Services complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

Mr. Jeff Wright  
Genesee County Drain Commissioner  
Division of Water and Waste Services  
Flint, Michigan

### **Internal Control Over Compliance**

The management of Genesee County Drain Commissioner Division of Water and Waste Services 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 Genesee County Drain Commissioner Division of Water and Waste Services' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and other pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 14, 2007



**Genesee County Drain Commissioner  
Division of Water and Waste Services**

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2006**

Federal Agency/Pass-through Agency Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Environmental Agency - Passed through the Michigan Department of Environmental Quality - Capitalization Grants for Clean Water State Revolving Funds:				
Project 5229-01	66.458	5229-01	\$ 22,180,000	\$ 6,465,521
Project 5229-02	66.458	5229-02	15,050,000	4,732,872
Project 5229-03	66.458	5229-03	2,815,000	93,145
Project 5229-04	66.458	5229-04	7,705,000	95,190
Project 5229-09	66.458	5229-09	4,335,000	5,400
Total federal awards				<u><u>\$ 11,392,128</u></u>

# **Genesee County Drain Commissioner Division of Water and Waste Services**

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## **Note to Schedule of Expenditures of Federal Awards Year Ended December 31, 2006**

### **Note - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Genesee County Drain Commission Division of Water and Waste Services and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

# Genesee County Drain Commissioner Division of Water and Waste Services

## Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2006

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major program:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of major program(s):

CFDA Number	Name of Federal Program or Cluster
66.458	Clean Water State Revolving Fund - Project 5229

Dollar threshold used to distinguish between type A and type B programs: \$341,764

Auditee qualified as low-risk auditee?  Yes  No

# Genesee County Drain Commissioner

## Division of Water and Waste Services

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### Schedule of Findings and Questioned Costs (Continued)

#### Year Ended December 31, 2006

#### Section II - Financial Statement Audit Findings

Reference Number	Findings
2006-1	<p><b>Bank Reconciliations</b></p> <p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - All bank accounts should be reconciled on a monthly basis.</p> <p><b>Condition</b> - Bank reconciliations related to the Sanitary Sewer cash accounts were not completed for the months subsequent to October 31, 2006.</p> <p><b>Context</b> - Due to staffing issues and turnover, these bank accounts were not completed.</p> <p><b>Effect</b> - Bank accounts that are not reconciled on a monthly basis are more susceptible to errors or irregularities that are not discovered in the normal course of business.</p> <p><b>Cause</b> - The Division believes that the accounts were not reconciled due to turnover experienced in the finance department.</p> <p><b>Recommendation</b> - Bank reconciliations should be performed timely for all bank accounts to ensure that reconciling items are identified and addressed appropriately while they are fresh. This ensures that management reports provide the most current and accurate information, therefore making them the most useful from a management perspective.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Division experienced turnover in the controller position during the fiscal year, and feels that during the transitional time the new controller was learning the system is when the reconciliations were missed. The controller has since made certain that all reconciliations are being performed timely.</p>

# Genesee County Drain Commissioner

## Division of Water and Waste Services

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### Schedule of Findings and Questioned Costs (Continued)

#### Year Ended December 31, 2006

#### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2006-2	<p><b>Unbilled Accounts Receivable</b></p> <p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - Receivables that have been earned during the year should be recorded, even if billings have not yet been prepared.</p> <p><b>Condition</b> - The Division does not record accounts receivable for services provided but not billed to customers at the end of the year.</p> <p><b>Context</b> - Total unbilled receivables calculated by the Division that were not recorded in the financial statements were estimated to be approximately \$2.4 million.</p> <p><b>Effect</b> - Assets, revenue, and net assets as presented in the financial statements are potentially understated.</p> <p><b>Cause</b> - The Division has maintained that, due to its billing system's inability to break out bills by service period, unbilled accounts receivable is extraordinarily difficult to calculate accurately.</p> <p><b>Recommendation</b> - The Division should attempt to calculate, or estimate, the unbilled receivables at year end, and have the balance reflected in the financial statements.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Division believes that certain limitations inherent to its software have impeded its ability to record unbilled receivables. Henceforth, the Division will be estimating a balance at year end and recording it.</p>

**Genesee County Drain Commissioner  
Division of Water and Waste Services**

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended December 31, 2006**

**Section II - Financial Statement Audit Findings (Continued)**

Reference Number	Findings
2006-3	<p data-bbox="415 615 857 646"><b>Bond Premiums and Discounts</b></p> <p data-bbox="415 684 889 716"><b>Finding Type</b> - Significant deficiency</p> <p data-bbox="415 753 1435 825"><b>Criteria</b> - Bond premiums and discounts should be capitalized and amortized over the life of the bond.</p> <p data-bbox="415 863 1435 934"><b>Condition</b> - Net bond premiums had not been recorded or amortized as of the balance sheet date.</p> <p data-bbox="415 972 1435 1043"><b>Context</b> - A net premium of approximately \$193,000 has not been recorded or amortized over the life of its respective bonds.</p> <p data-bbox="415 1081 1435 1152"><b>Effect</b> - Liabilities and expenses are understated in each of the years over which the unrecorded bond premiums would be amortized.</p> <p data-bbox="415 1190 1435 1295"><b>Cause</b> - The Division's finance department was unaware that the premium amount needed to be recorded on the financial statements in conjunction with the debt from which the premiums arose.</p> <p data-bbox="415 1333 1435 1438"><b>Recommendation</b> - We recommend that the bond premium and discount amounts be recorded and amortized over the life of their respective bonds as required by Governmental Accounting Standards Board regulations.</p> <p data-bbox="415 1476 1435 1661"><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Division believes that since it is now aware that these amounts should be recorded in conjunction with the corresponding debt and amortized over the same time as the original debt issues, all new bond issues with associated premiums or discounts will be recorded properly.</p>

# Genesee County Drain Commissioner

## Division of Water and Waste Services

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### Schedule of Findings and Questioned Costs (Continued)

#### Year Ended December 31, 2006

### Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2006-4	<p><b>Year-end Adjustments</b></p> <p><b>Finding Type</b> - Significant deficiency</p> <p><b>Criteria</b> - All appropriate activity should be accurately recorded in each accrued liability and receivable accounts at the balance sheet date.</p> <p><b>Condition</b> - Adjustments for interest payable related to debt, interest receivable from local communities, and attorney fees owed at year end were not properly recorded in the general ledger.</p> <p><b>Context</b> - Unrecorded amounts for interest payable related to debt, interest receivable from local communities, and attorney fees owed at year end amounted to approximately \$872,000, \$441,000, and \$168,000, respectively.</p> <p><b>Effect</b> - Certain asset and liability accounts are under- or overstated at the balance sheet date.</p> <p><b>Cause</b> - The Division did not review these receivable and accrual accounts to ensure that all necessary amounts had been properly recorded.</p> <p><b>Recommendation</b> - The Division should develop a checklist that will enable it to make certain that all pertinent accounts have been reviewed for the appropriate activity, specifically at year end.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The Division believes that the majority of these transactions were the cause of "non-triggering events" in which invoices had not been received by year end, or in which there would not have been any other indicator that money was owed or receivable from another entity. The Division will properly review these accounts at year end for proper adjustments.</p>

**Genesee County Drain Commissioner  
Division of Water and Waste Services**

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**Schedule of Findings and Questioned Costs (Continued)  
Year Ended December 31, 2006**

**Section III - Federal Program Audit Findings**

None