

IOSCO COUNTY  
TAWAS CITY, MICHIGAN

SINGLE AUDIT REPORTS  
YEAR ENDED DECEMBER 31, 2019

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June 26, 2020

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

Board of Commissioners  
Iosco County  
Tawas City, Michigan

We have audited, in accordance with the 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Iosco County as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Iosco County's basic financial statements and have issued our report thereon dated June 26, 2020. Our report includes a reference to other auditors who audited the financial statements of Iosco Medical Care Facility and Iosco County Road Commission, as described in our report on Iosco County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Iosco Medical Care Facility were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Iosco Medical Care Facility.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Iosco County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Iosco County's internal control. Accordingly, we do not express an opinion on the effectiveness of Iosco County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-002 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Iosco County's financial statements are free from 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*.

### **Iosco County's Response to Findings**

Iosco County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Iosco County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stephenson & Company, P.C.

June 26, 2020

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Commissioners  
Iosco County  
Tawas City, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited Iosco County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Iosco County's major federal programs for the year ended December 31, 2019. Iosco County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Iosco County's basic financial statements include the operations of Iosco County Road Commission, which expended \$1,933,928 in federal awards which is not included in Iosco County's schedule of expenditures of federal awards during the year ended December 31, 2019. Our audit, as described below, did not include the operations of Iosco County Road Commission because the federal awards were for contracted projects. These contracted projects fall under the single audit requirements of the Michigan Department of Transportation.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Iosco County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Iosco County'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Iosco County's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Iosco County complied, in all material respects, with the types of compliance 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, 2019.

### **Report on Internal Control Over Compliance**

Management of Iosco County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Iosco County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Iosco 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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 Iosco County as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise Iosco County's basic financial statements. We issued our report thereon dated June 26, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Stephenson & Company, P.C.*

IOSCO COUNTY  
Tawas City, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2019

Summary of Auditors' Results

1. The auditors' report expresses unmodified opinions on the financial statements of Iosco County.
2. One material weakness and one significant deficiency in internal control relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Iosco County, which are required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of internal control over major federal award programs are reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal award programs for Iosco County expresses an unmodified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for Iosco County are reported in this schedule.
7. The program tested as a major program was: CFDA #11.307 Economic Development Administration - Economic Adjustment Grant for Military Base Closures
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Iosco County does not qualify as a low-risk auditee.

Findings - Financial Statement Audit

2019-001

Financial Statement Preparation

**Condition and Criteria:** Accounting principles require personnel of the County have the knowledge to review and determine the financial report and the Schedule of Expenditures of Federal Awards is a complete presentation in accordance with Generally Accepted Accounting Principles. Iosco County's personnel prepare various financial information throughout the year to assess operations and the financial condition of the County. However, prior to the closing of the year end, various entries material to the financial statements were proposed by the external auditors. Also, the County relies on the external auditors to assist in preparing the annual financial report and Schedule of Expenditures of Federal Awards in accordance with Generally Accepted Accounting Principles.

**Effect:** As a result, the County is considered to have a material weakness, since reporting errors or omissions could occur in the preparation of the annual financial report and Schedule of Expenditures of Federal Awards that would be departures from Generally Accepted Accounting Principles and the County would not be in a position to detect the errors or omissions.

**Cause:** The County has in the past evaluated the cost vs. benefit of correcting this finding and deemed it in its best interests to outsource the task to its external auditors.

IOSCO COUNTY  
Tawas City, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2019

Findings - Financial Statement Audit (Continued)

2019-001 Financial Statement Preparation (Continued)

**Context:** Iosco County has individuals on staff to review the financial report and Schedule of Expenditures of Federal Awards to ensure they are accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report and Schedule of Expenditures of Federal Awards is a complete presentation in accordance with Generally Accepted Accounting Principles.

**Auditor's Recommendation:** We recommend the County continue to re-evaluate the cost vs. benefit considerations involved with remedying this situation.

**Views of Responsible Officials:** The County has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the County to outsource this task to its external auditors, and to carefully review the draft financial statements and notes and the Schedule of Expenditures of Federal Awards prior to approving them and accepting responsibility for their content and presentation.

**Corrective Action Plan:** See attached corrective action plan from management.

2019-002 Review of Direct Deposit ACH File after Initiation with the Financial Institution

**Condition and Criteria:** A sound internal control process includes the separation of duties in the performance of functions. During our examination of the internal control process over payroll, we determined that while there is internal control over the payroll process, there is no independent review of the final amount sent to the County's financial institution for direct deposit of payroll.

**Effect:** The effect of this significant deficiency is that the County is at an increased risk for misappropriation of assets as there is a lack of separation of duties over this final step in the process as there is no review by another individual other than the original preparer.

**Cause:** The County's internal control system did not take into consideration steps in the payroll process after the completion of the payroll register.

**Context:** All payroll related direct deposits lack this control.

**Auditor's Recommendation:** We recommend that the ACH file and returned confirmation email is reviewed by an individual other than the payroll clerk and compared to the approved payroll register.

**Views of Responsible Officials and Planned Corrective Actions:** As soon as this issue was brought to the attention of the County Clerk during the audit, the County Clerk contacted the financial institution and the confirmation email is also being sent to her for review. In the review, she is also ensuring the amount of the ACH file matches the payroll register approved by her earlier in the payroll process.

IOSCO COUNTY  
Tawas City, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2019

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ended December 31, 2019.

IOSCO COUNTY, MICHIGAN  
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2019

| Federal Grantor or Pass Through Grantor<br>Program Title/Grantor's Number   | Federal<br>CFDA<br>Number | Current Year<br>Expenditures | Expenditures to<br>Subrecipients |
|---|---------------------------|------------------------------|----------------------------------|
| <u>U.S. Department of Agriculture</u>   |                           |                              |                                  |
| Housing Preservation Grant Program Income   | 10.433                    | \$ 550                       | \$ 0                             |
| Passed through the Michigan Department of Natural Resources:<br>Schools & Roads - Grants to States National Forest Revenue 2018             | 10.665                    | 120,245                      | 120,245                          |
| Rural Business Enterprise Fund Grant  | 10.769                    | <u>45,969</u>                | <u>0</u>                         |
| Total U.S. Department of Agriculture  |                           | <u>166,764</u>               | <u>120,245</u>                   |
| <u>U.S. Department of Interior</u>  |                           |                              |                                  |
| Payment in Lieu of Taxes 2019   | 15.226                    | <u>164,422</u>               | <u>0</u>                         |
| <u>U.S. Department of Commerce</u>  |                           |                              |                                  |
| Economic Development Administration - Economic<br>Adjustment Grant for Military Base Closures   | 11.307                    | <u>3,054,904</u>             | <u>0</u>                         |
| <u>U.S. Department of Housing and Urban Development</u>   |                           |                              |                                  |
| Passed through Michigan State Housing Development Authority:<br>Community Development Block Grant Program Income                            | 14.228                    | 25,430                       | 0                                |
| ICHRRLP Revolving Loan Fund   |                           | <u>4,048</u>                 | <u>0</u>                         |
|   |                           | <u>29,478</u>                | <u>0</u>                         |
| <u>U.S. Department of Health and Human Services</u>   |                           |                              |                                  |
| Child Support Enforcement:<br>Passed through the Michigan Department of Human Services:<br>Child Support Enforcement Incentive Payment 2019 | 93.563                    | 36,989                       | 0                                |
| Friend of the Court Title IV-D CSFOC-17-35001   |                           | <u>394,904</u>               | <u>0</u>                         |
|   |                           | <u>431,893</u>               | <u>0</u>                         |
| <u>U.S. Department of Homeland Security</u>   |                           |                              |                                  |
| Passed through the Michigan Department of Natural Resources:<br>2019 Marine Safety Program Grant Agreement                                  | 97.012                    | <u>8,700</u>                 | <u>0</u>                         |
| Passed through Michigan State Police:<br>Emergency Management Performance Grant EMC-2019-EP-00004   | 97.042                    | <u>9,516</u>                 | <u>0</u>                         |
| Passed through Michigan Region 3 Homeland Security Planning Board:<br>2017 State Homeland Security Grant Program EMW-2017-SS-00010-S01      | 97.067                    | 438,885                      | 335,571                          |
| 2016 State Homeland Security Grant Program EMW-2016-SS-00010-S01  |                           | <u>266,739</u>               | <u>266,630</u>                   |
|   |                           | <u>705,624</u>               | <u>602,201</u>                   |
| Total U.S. Department of Homeland Security  |                           | <u>723,840</u>               | <u>602,201</u>                   |
| Total Federal Awards  |                           | <u>\$ 4,571,301</u>          | <u>\$ 722,446</u>                |

The accompanying notes are an integral part of this schedule.

IOSCO COUNTY  
Tawas City, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Iosco County under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Iosco County, it is not intended to and does not present the financial position, changes in net position, or cash flows of Iosco County.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, *Title 2*.

Iosco County has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Reconciliation to Financial Statements

|  |    |                  |
|--|----|------------------|
| Federal revenue presented in the financial statements  | \$ | 1,443,522        |
| Accounts receivable for year ended December 31, 2018, received more than 60 days after year end and recognized as federal revenue in the fiscal year ended December 31, 2019<br>#93.563 Child Support Enforcement  |    | (107,842)        |
| Loans receivable for the year ended December 31, 2019 not recognized as federal revenue but recognized as federal award expenditures.<br>#10.769 Rural Business Enterprise Fund Grant  |    | 23,433           |
| Revolving Loan Fund Capital Base<br>#11.307 Economic Adjustment Grant for Military Base Closures   |    | 3,037,385        |
| Loan disbursements, write-offs, and administrative expenses made for the year ended December 31, 2019 not recognized as federal revenue, but recognized as federal award expenditures.<br>#11.307 Economic Adjustment Grant for Military Base Closures<br>#14.228 CDBG Revolving Loan Fund   |    | 17,519<br>10,455 |
| Cash balances and administrative expenses in revolving loan funds required to be included in the Schedule of Expenditures of Federal Awards per the compliance supplements but, not included as federal revenue in the financial statements.<br>#10.769 Rural Business Enterprise Fund Grant |    | 22,536           |
| Loan repayments, loans disbursed by subrecipients, and interest revenue in revolving loan funds recognized as mortgage repayment and interest revenue but required to be reported on the Schedule of Expenditures of Federal Awards.<br>#14.228 ICHRRLP Revolving Loan Fund                  |    | 4,048            |
| Federal Awards passed through the County to other local units of government required to be included on the Schedule of Expenditures of Federal Awards but not recognized as revenue to the County.<br>#10.665 Schools & Roads - Grants to States National Forest Revenue 2018                |    | 120,245          |
| Federal revenue expended per the Schedule of Expenditures of Federal Awards  | \$ | 4,571,301        |

The accompanying notes are an integral part of this schedule.

IOSCO COUNTY  
Tawas City, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2019

4. Calculation of the amount on the Schedule of Expenditures of Federal Awards for #11.307 Economic Development Administration - Economic Adjustment Grant for Military Base Closures

|   |              |
|---|--------------|
| Balance of the loans outstanding at December 31, 2019 | \$ 1,596,051 |
| Cash and investment balance at December 31, 2019      | 1,441,334    |
| Administration expenses                               | 17,519       |
| Unpaid principal of loans written of during the year  | <u>0</u>     |
| Total   | 3,054,904    |
| Federal participation rate                            | 100%         |

The accompanying notes are an integral part of this schedule.

## Summary Schedule of Prior Year Audit Findings:

### 2018-001 - Financial Statement Preparation

**Finding:** Historically the County has relied on its independent external auditors to assist in the preparation of financial statements, related footnotes, and the Schedule of Expenditures of Federal Awards as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based in part, on its external auditors, who cannot by definition be considered a part of the County's internal controls. The County has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that is in the best interests of the County to outsource the task to its external auditors, and carefully review the draft financial statements, related notes, and the Schedule of Expenditure of Federal Awards prior to approving them and accepting responsibility for their content and presentation.

**Year of Initial Occurrence:** December 31, 2008

**Status:** This situation still exists. The County understands the risk of having the auditors prepare the financial statements and has determined to accept this risk as they feel the benefit outweighs the risk itself. See the current year finding 2019-001 for details and for following Corrective Action Plan.

**Corrective Action Plan**  
**For the Year Ended December 31, 2019**

**2019-001 - Financial Statement Preparation**

**Finding:** Historically the County has relied on its independent external auditors to assist in the preparation of financial statements, related footnotes, and the Schedule of Expenditures of Federal Awards as part of its external financial reporting process. Accordingly, the County's ability to prepare financial statements in accordance with GAAP is based in part, on its external auditors, who cannot by definition be considered a part of the County's internal controls. The County has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in best interests to outsource the task to its external auditors, and carefully review the draft financial statements, related notes, and the Schedule of Expenditure of Federal Awards prior to approving them and accepting responsibility for their content and presentation.

**Corrective Action:** The County will not be correcting this finding. The County has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the County to outsource the task to its external auditors, and to carefully review the draft financial statements, related notes, and the Schedule of Expenditures of Federal Awards prior to approving them and accepting responsibility for their content and presentation.

**Contact Person Responsible for Corrective Action:** Nancy Huebel, County Clerk/Administrator

**Anticipated Completion Date:** Ongoing, with annual review by County Clerk/Administrator and Auditor.

**2019-002 – Review of Direct Deposit ACH File after Initiation with the Financial Institution**

**Finding:** A sound internal control process includes the separation of duties in the performance of functions. During our examination of the internal control process over payroll, we determined that while there is internal control over the payroll process, there is no independent review of the final amount sent to the County's financial institution for direct deposit of payroll.

**Corrective Action:** As soon as this issue was brought to the attention of the County Clerk during the audit, the County Clerk contacted the financial institution and the confirmation email is also being sent to her for review. In the review, she is also ensuring the amount of the ACH file matches the payroll register approved by her earlier in the payroll process.

**Contact Person Responsible for Corrective Action:** Nancy Huebel, County Clerk/Administrator

**Anticipated Completion Date:** This item was corrected in March of 2020.