

# 'Serious deficiencies'

■ *Forensic investigation into county personnel over finances is underway*

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STANTON — A forensic investigation into the financial activities of Montcalm County personnel is underway to determine whether state or federal law was violated.

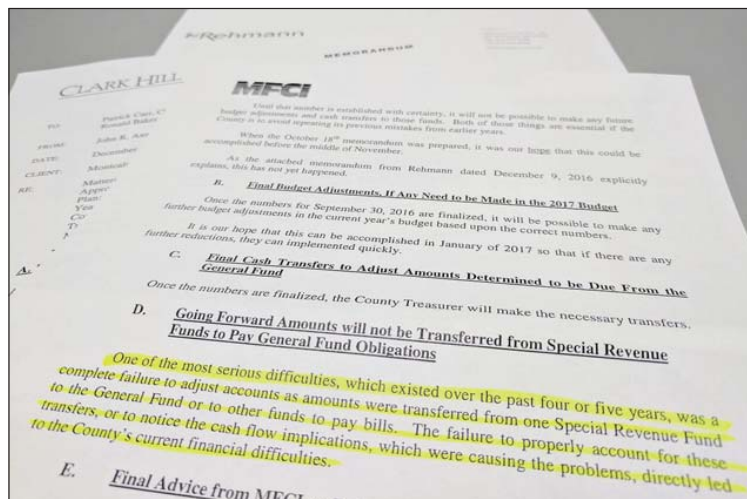
Clark Hill, a Detroit-based law firm, alerted the Montcalm County Board of Commissioners on Dec. 15 that the investigation began less than 30 days prior, according to documents obtained by The Daily News via the Freedom Of Information Act.

The investigation is ongoing and

reports are being directed to Commissioner Ron Retzlaff, who is vice chairman of the board; Commissioner Ron Baker, who is chairman of the county's Finance & Personnel Committee; Montcalm County Controller-Administrator Robert Clingenpeel; and Montcalm County Treasurer JoAnne Vukin.

"Unfortunately, the ongoing work being done by Rehmann has unearthed a considerable number of major difficulties which relate to the audited financial statements for the county's fiscal year, which ended Sept. 30, 2015," stated a Clark Hill memo to the county. "It is not yet possible to obtain exact numbers for the Sept. 30, 2016, transfers because of serious deficiencies in

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Memos from Clark Hill, Rehmann Robson and Municipal Financial Consultants Inc. (MFCI) to the Montcalm County Board of Commissioners detail an ongoing investigation into county finances and personnel.

## INVESTIGATION

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the county's accounting records which were not pointed out in the audit received by the county on May 31, 2016."

The county cut ties with its previous auditor Abraham & Gaffney this past summer after not hearing an annual audit report from the firm since 2006.

Chris Hyzer, who previously worked as a senior auditor for Abraham & Gaffney, was hired as Montcalm County's controller-administrator in 2007. He stepped down from that job this past spring to work as finance director/treasurer of the city of Ionia.

John Axe, an attorney with Clark Hill, has told commissioners that Abraham & Gaffney indicated that Hyzer requested Abraham & Gaffney not meet with commissioners for an annual audit report over the past decade.

A Dec. 16 memo from Municipal Financial Consultants Inc. (MFCI), a Detroit-based consulting firm, summarized the actions that brought the county to this point.

"One of the most serious difficulties which existed over the past four or five years was a complete failure to adjust accounts as amounts were transferred from one special revenue fund to the general fund or to other funds to pay bills," the memo stated. "The failure to properly account for these transfers, or to notice the cash flow implications which were causing the problems, directly led to the county's current financial difficulties."

A Dec. 9 memo from Rehmann Robson, a Grand Rapids-based accounting firm, detailed some of the difficulties the firm has been encountering while investigating Montcalm County finances, including:

- "Errors and omissions in beginning balances — We have identified a variety of errors in the amounts as presented in the fiscal year 2015 audited financial statements. As we have mentioned previously, some of these items relate to cash. Given the volume of such errors (and quantitative significance in many funds), we are recommending that beginning balances be restated."

- "Traditional audit preparation — Many balance sheets are adjusted only at year-end for external financial reporting purposes. Many of these accounts have not been adjusted since Sept. 30, 2015 (and some have not been adjusted in years)."

- "Delinquent tax settlement — The tax settlement done in April 2016 was only recorded in the accounting records as an outflow of cash. In addition, the county's records of property tax chargebacks (amounts billed to other local units, including taxing funds of the county for refunds made to taxpayers) have not been reconciled in many years. We believe that chargebacks have been invoiced (and paid timely by local units), but this activity is not being reflected correctly in the accounting records. Chargebacks to other county funds were billed, but it is unknown whether payment was ever

### A RECAP OF MONTCALM COUNTY'S FINANCIAL INVESTIGATION

- **August:** Commissioners voted to contract with Clark Hill PLC in Detroit for legal services, to contract with Municipal Financial Consultants Inc. (MFCI) in Detroit to assist Clark Hill and to contract with Rehmann Robson of Troy for accounting services as an emergency audit of the county got underway. A study revealed that county expenses had overshoot revenues by an average of \$1.5 million per year since 2008.

- **September:** Commissioners voted to make more than \$1.7 million in budget cuts, equating to a loss of 30 jobs.

- **October:** The state of Michigan warned it may begin withholding 25 percent of revenue sharing from the county after the county was late in submitting a deficit elimination plan.

- **November:** The state of Michigan accepted the county's deficit elimination plan and is now waiting to see the county's most recent audit results.

- **December:** Clark Hill, Rehmann Robson and MFCI officials reported the investigation was taking longer than expected due to numbers not adding up. Commissioners approved adopting a resolution to transfer \$1.3 million from the delinquent tax revolving fund to the general fund. The \$1.3 million will come from a \$2.5 million bond that commissioners approved to help with the county's financial situation.

- **January 2017:** The Montcalm County Board of Commissioners will hold their annual organizational meeting at 9 a.m. Jan. 3 in the Montcalm County Administrative Building in Stanton. The meeting is open to the public.

made."

- "Capital assets — A schedule of drain infrastructure assets (presented in the fiscal year 2015 audit at approximately \$3.3 million) cannot be located. We are working through these issues and will determine if it is necessary to reach out to the former auditors for more information."

- "Review of fiduciary liabilities — There are accumulated, unreconciled variances in fiduciary liabilities that appear to span many fiscal years. Our procedures on the current year variances have identified both errors in how activity was entered into the accounting records (i.e., the actual disbursement was correct, but the general ledger was wrong) and errors in amounts paid out (i.e., the general ledger was correct). Accordingly, the county deems it prudent to do additional research on these residual amounts."

Rehmann Robson officials expect to continue the financial investigation throughout the first week of January and as needed in the weeks leading up to the audit, which is scheduled to begin the first week of February.

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