March 17, 2017

Management and the Board of Health
Mid-Michigan District Health Department
615 N. State St., Suite 2
Stanton, MI 48888

We have completed our audit of the financial statements of the governmental activities and the major fund of Mid-Michigan District Health Department as of and for the year ended September 30, 2016, and have issued our report dated March 17, 2017. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The following appendices to this letter sets forth those communications as follows:

I. Auditors’ Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management’s Consideration

We discussed these matters with various personnel in the organization during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Health, and others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.
Appendix I

Auditors’ Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, Government Auditing Standards and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated November 28, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the organization are described in Note 1 of the financial statements. The Government has adopted Governmental Accounting Standards Board Statements (GASBS) No. 72, 76, 79, and 82, Fair Value Measurement and Application, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, Certain External Investment Pools and Pool Participants, and Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively. GASB No. 72, 76, and 79 are effective July 1, 2015, and GASB 82 is effective for years beginning July 1, 2016, however, early implementation is encouraged. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. Statement 76 identifies the hierarchy of generally accepted accounting principles. Statement 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Statement 82 amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s 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 significantly from those expected. The most sensitive estimates affecting Mid-Michigan District Health Department’s financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Other post-employment benefits. The estimate is derived from a calculation including factors such as: life expectancy, historical insurance costs, probability of retirement, and the applicable federal interest rates in effect at the time of the calculation.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.
Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending September 30, 2017.

Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending September 30, 2018.

Statement No. 77, Tax Abatement Disclosures requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The requirements of this Statement are effective for the fiscal year ending September 30, 2017.

Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending September 30, 2017.

Statement No. 81, Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending September 30, 2018.

The Organization is evaluating the impact the above GASB’s will have on its financial reporting.

Regulatory and Other Updates

Cybersecurity and data backup best practices
The Organization’s data is critically important. There are millions of ways data can be compromised. It is vitally important that all employees have proper knowledge on what is safe to click on and what is not. It is equally important that a proper data backup solution is in place in the event an organization’s information is targeted by malware or a phishing attack. An organization’s vital information is always a moment away from being compromised. Encouraging and educating employees to pay attention to what they click on and what they do is the first step in keeping information safe.
Having a proper data backup solution in place can mean the difference between an organization surviving a cyber-attack or going under. Every organization should know the answer to two questions when looking at data backup solutions.

1. How long can my organization survive a network outage?
   Many organizations assume that they are properly backing up their network but how often are those backups tested? Internally managed backups are more susceptible to lack of testing. Management often believes they have successful backups but in the moment of a disaster, they find out that their last successful backup was months ago. Test backups often to make sure files can be recovered when needed.

2. Does our organization understand the difference between a backup and disaster recovery?
   Management often assumes that simply backing up files is “good enough”. Backing up files is something all organizations should do. However, it’s important to remember that restoring files and emails is one thing, but recovering and restoring all company data in the event of a disaster is another.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

The following material misstatements were detected as a result of our audit procedures and corrected by management:

- The Department recorded unearned revenue of $102,589, related to funding that is part of the dental clinic, as of September 30, 2015 that was in fact earned revenue with restrictions on how the funds could be spent. This amount should have been recorded as restricted fund balance.

- The Department recorded a liability for compensated absences as of September 30, 2015 that was not in accordance with the policies that govern this liability. The compensated absences liability was overstated by $292,316 at September 30, 2015.

- The Department recorded $72,300 of unearned revenue as of September 30, 2015 related to amounts recorded as receivable for services provided. This amount should have been recorded as a deferred inflow of resources in the fund statements, and revenue in the government-wide statements.

- The Department omitted certain lease contracts from the long-term lease receivable as of September 30, 2015. An additional $272,933 should have been recorded in the fund statements as a receivable and deferred inflow of resources. This amount should have been recorded as revenue in the government-wide statements.

- In total, net position of the governmental activities was understated by $740,138, and fund balance of the general operating fund was understated by $102,589.

There were no uncorrected misstatements that were more than trivial.
Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors’ report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management’s Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the organization’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the organization’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the: 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; Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal Awards Required by the Uniform Grant Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management’s discussion and analysis, municipal employees retirement system schedules, other post-employment benefit schedules, and budgetary comparison information, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.
Appendix II
Matters for Management’s Consideration

In planning and performing our audit of the financial statements of Mid-Michigan District Health Department as of and for the year ended September 30, 2016, we considered Mid-Michigan District Health Department’s internal control over financial reporting (internal control) as a basis for designing our audit 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 the organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the organization’s internal control.

However, during our audit we became aware of the following matters for management’s consideration that are opportunities for strengthening internal controls and improving compliance. This letter does not affect our report dated March 17, 2017, on the financial statements of Mid-Michigan District Health Department. Our comments and recommendations regarding those matters are:

Segregation of Duties
During our walkthrough of the cash collection process, we noted that the same individual at each clinic will collect the client’s payment, enter the payment into the system, and make the deposit at the bank for these cash collections. Because of the risk of theft during the cash collection process, we recommend that the Organization assign these tasks to separate individuals at each location in order to mitigate this risk.

Credit Card Usage Policy
The Organization does not have a formal established guideline concerning the usage of credit cards to make purchases. Michigan Public Act 266 of 1995, section 129, requires the Organization to adopt a written policy. We recommend that management establish a written policy outlining the appropriate procedures to follow when making purchases using the Organization’s credit cards, which includes the related procedures concerning the reconciliation and approval of such purchases.

Data Collection Form – Reporting
Uniform Guidance requires that the data collection form and reporting package shall be submitted by the earlier date of either 30 days after the receipt of the auditor’s report(s), or nine months after the end of the fiscal year end date, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit. For the year ended September 30, 2015, the data collection form was not submitted within the required deadline. We recommend the data collection form and reporting package be submitted as soon as possible after the single audit report has been issued.

Investment Policy
The Organization does not have an investment policy. Michigan Public Act 20 of 1943 requires the Organization to adopt a written investment policy. We recommend that management review the requirements, draft a policy and present the policy to the Board of Public Health for approval.

Electronic Transactions Policy
The Organization does not have a written policy concerning electronic transactions of public funds. Michigan Public Act 738 of 2002 requires the Organization to adopt a written electronic transaction policy. We recommend that management review the requirements, draft a policy and present the policy to the Board of Public Health for approval.

Credit Card Acceptance Policy
The Organization has not adopted a resolution to allow the acceptance of credit cards as a method of payment for fees. Michigan Public Act 280 of 1995 requires the Organization’s governing body to approve a resolution regarding the use of credit cards as a form of payment to be accepted. We recommend that management review the requirements, draft a resolution and present the resolution to the Board of Public Health for approval.