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March 20, 2018

Management and the Board of Health
Mid-Michigan District Health Department
Stanton, Michigan

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, 2017, and have issued our report dated March 20, 2018. 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.

Yeo & Yeo, P.C.

Alma, Michigan

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 October 26, 2017. 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. No new accounting policies were adopted and the application of existing policies was not changed during the year. 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 based on an actuarial report.

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. 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. 81, *Irrevocable Split-Interest Agreements* 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.

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending September 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending September 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending September 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is 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

Chart of Accounts

The Michigan Department of Treasury released a new version of the uniform chart of accounts in April 2017. Significant changes were made which expanded the breadth of information now available to governmental entities. We encourage your organization to review the uniform chart of accounts to ensure the accounting records are in compliance with the guidelines set forth in the expanded version. The uniform chart of accounts is available on the Michigan Department of Treasury's website at http://www.michigan.gov/documents/uniformchart_24524_7.pdf. If questions arise from your review of this information please contact us for assistance.

Cybersecurity Posture

Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five US Companies have

suffered from an attack. Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your organization's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure." The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

Placing significant emphasis on evaluating your organization's cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

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.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 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, 2017, 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 20, 2018, 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.

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.

Deposits Held at County

Throughout our audit, we noted that the Organization must request funds from the deposits held at Montcalm County before making any cash disbursements. Once the request is approved, the Organization receives the requested funds via check, which must be deposited to the Organization's bank accounts before disbursing further. In addition, when daily deposits are sent to the County, the Organization remits these deposits along with written correspondence on a sheet of paper instructing the County on how the funds are to be deposited. We noted instances throughout the year in which the paper containing the written instructions was misplaced, which lead to deposits not being made timely after remittance to the County.

We recommend that the Organization consider some improvements to make this process quicker and more efficient. If all disbursement requests from the County were to be received via electronic transfer instead of paper check, the funds would be received in the Organization's bank accounts much quicker, which would allow for more timely payments and help avoid any potential late payments. In addition, if the correspondence accompanying each daily deposit to the County were to be communicated via email, this would help eliminate any potential future issues with deposit instructions.