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Introduction

The Leelanau County Board of Commissioners adopted resolution 2021-014 on May 11, 2021, authorizing the creation and hiring of Human Resource Director and Finance Director positions reporting to the County Administrator.

Excerpt from Resolution 2021-014:

Whereas certain non-mandated functions have been performed by the Leelanau County Clerk's Office at the request of the Board of Commissioners, including, but not limited to, human resources and accounting/payroll functions; and

Whereas the Leelanau County Board of Commissioners desires to authorize creation and hiring of two new positions: Human Resources Director and Finance Director to be selected and supervised by the County Administrator; and

Whereas the County Administrator will develop a job description which sets forth the job duties and responsibilities of the Human Resources Director position including, but not limited to, the functions of recruitment, hiring, retention, management of compensation and benefits, labor compliance and training/development; and

Whereas the County Administrator will develop a job description, which sets forth the job duties and responsibilities of the Finance Director position, including, but not limited to, the functions of accounting/payroll functions, disbursing funds, financial oversight, reporting, budgeting and accounting.

The County Board of Commissioners has engaged Rehmann to assist with the transition of accounting functions to be under the purview of the Finance Director by:

- Documenting the County's current financial processes, procedures, and internal controls.
- Creating a streamlined approach to implement a transition plan while considering best practices and requirements for local units of government in Michigan and while keeping a strong internal control environment within and between departments.
- Maintaining compliance with 2 CFR 200 Federal Cost Principals and laws and regulations.

Best Practices and Recommendations

This report outlines the information obtained from County staff and officials during the engagement and offers our recommendations for what we feel would best fit Leelanau County's needs. It also includes supplemental reference information we think will be helpful to the County.

Internal Control

The term *internal control* describes the systems and processes used by management to help an organization achieve its objectives. When properly designed, internal controls make an organization more effective, efficient, and able to report on its operations, while ensuring compliance with applicable laws and regulations. The five components of internal controls are: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Throughout this report, we have considered internal controls with each recommendation provided.

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Budgeting

As a governmental entity, the County's budget serves not just as a spending plan, but as a legal appropriation of public funds. Accordingly, budgetary accountability is both a matter of operational management and compliance with State law.

General Budget Requirements

The Uniform Budgeting and Accounting Act (PA 2 of 1968) establishes the legal framework for governmental budgets in Michigan. The Michigan Department of Treasury has published a *Uniform Budget Manual for Local Units of Government* that lays out the general and specific requirements for the County's budget.

Budget Format

Specifically, PA 2 of 1968 requires governments to prepare a budget package that contains at a minimum:

1. Actual revenues and expenditures from the prior (audited) year.
2. Estimates of current year revenues and expenditures (as the subsequent year budget is developed and adopted prior to the current year end).
3. Estimates of the budget year's revenues and expenditures (the proposed budget being considered for adoption).
4. The amount of surplus or deficit that has accumulated from prior fiscal years (fund balance), together with an estimated of the amount of surplus or deficit expected in the current fiscal year.
5. An estimate of the amounts needed for contingency or emergency purposes.
6. Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.
7. Total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues, including an available unappropriated surplus (fund balance) and proceeds from bonds.

Level of Detail in the Budget

The Uniform Budget Manual discourages governments from adopting a line-item budget. An overly detailed budget could result in a lack of flexibility in re-allocating resources where they are needed, a large number of budgetary violations, or both. Instead, it recommends the budget be adopted by source for revenues and by activity for expenditures.

Traditionally, most governments develop and adopt their budgets along GAAP-basis reporting lines (funds, functions, and departments), as recommended by the Uniform Budget Manual. Leelanau County adopts its budget in this fashion.

Annual Budget Preparation Process

The County Administrator, as the Chief Administrative Officer of the County, has been charged with the responsibility of preparing and coordinating the annual operating budget and presenting it to the Board of Commissioners.

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The Finance Director's budgetary responsibility is to work under the direction of the County Administrator to coordinate the preparation of the detailed proposed county budget by collecting data, working with county departments, and preparing relevant reports for the review of the Administrator and Board of Commissioners.

As part of the annual budget preparation process, the County adopts a *Budget Rules* document, which aligns with PA 2 of 1968's General Appropriations Act requirements.

Budgetary Control and Accountability

To comply with PA 2 of 1968, the County needs to maintain a system of budgetary control that permits it to track actual results and demonstrate compliance with its legally adopted budget. This is addressed in more detail in the Reporting section of this document.

Budgetary accountability is the concept of assigning responsibility for an organization's adopted budget to an individual and entrusting him/her to monitor and use those resources within his/her assigned authority. As noted in the Annual Budget Preparation section of this report, this responsibility lies with the Leelanau County Administrator and Finance Director.

Once adopted, a budget is only useful if it is regularly compared to actual results and amended as necessary. When properly used, a budget is both a benchmark of expected results and an early warning tool to prevent over-expending resources.

Budget Amendments

As the County adopts its budget on an activity/department basis, budget amendments are necessary when the department as a whole will be overspent if the desired expenditure is incurred. While every effort is made to create an annual budget that provides sufficient funding for every department for the entire fiscal year, occasionally budget amendments are necessary to run departments effectively and efficiently.

As provided in the County's *Budget Rules* document referred to above, the County Administrator and Finance Director are jointly responsible for assuring that any transfers or expenditures in excess of the approved departmental budget are made only after approval by the Board of Commissioners. The document also requires that all budget amendments or transfers of funds must have written recommendation from the Executive Board and prior Board approval (see Leelanau County *Budget Rules* document item 10).

Once a need for a Budget Amendment and/or Fund Transfer is determined current procedure include:
- A prepared Budget Amendment or Fund Transfer document is presented to the Board by the Finance Director.
- Upon Board approval, the data entry document is generated by the Assistant Finance Director. Notify the Treasurer of approved funds transfer.
- Data entry document is reviewed and approved by the Finance Director.
- Either the AP/Payroll Clerk or the Assistant Finance Director enters data into the Harris system.

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- The batch listing document is generated by the person who entered the data and reviewed by either the Assistant Finance Director or the Finance Director.
- Upon approval, the batch is released.
- Only the Finance Director or Assistant Finance Director have permission in Harris to post amendments and transfers.
- All source documents are bound in the Budget Amendment or Fund Transfer book for archive/audit.

Recommendation: Our understanding is that the budget process is being transitioned from the Clerk's Office to the County Administrator for the management of the budget process and the Finance Office for the detailed work involved with preparing the proposed budget, as delineated in the respective job descriptions. We recommend these duties transition fully to Administration/Finance as soon as practical.

Many or all of these budget development best practices have already been implemented, which include:
- seeking input from county officials, department heads, and key staff, vendors, assessors, relevant granting agencies, component units, joint venture agencies, etc.
- performing analyses, calculations, comparisons, etc.
- incorporating steps to ensure requirements are met and regulations adhered to. documentation of input, discussions, analyses, etc. should be maintained by the Finance Director for reference, for when questions arise during the year.
- Proposed budget documents and related supporting calculations should be prepared within the county's software system whenever possible utilizing the system's automated budget import, roll forward and adoption features. This will maximize efficiency, reduce input errors, and function as an integral part of the internal control structure as it relates to budget preparation.

Best practices related to the role of the Board of Commissioners' high-level participation in the budget process include:
- understanding significant estimates used in the budget
- any significant changes from the prior years' budgets
- significant trends
- major projects included in the budget
- challenges the County is facing
- help to assess whether the County budget adequately funds mandated County services and meets community needs
- The County Administrator and Finance Director should provide supporting documentation, calculations, and explanations as necessary and as requested, so the Commissioners can gain the knowledge and understanding needed to make fiscally sound decisions.

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Recommendation: PA 2 of 1968 provides substantial guidance and requirements in addition to what is listed in this document. We further recommend that the County Administrator and Finance Director take steps to further their understanding of PA 2 of 1968. PA 2 of 1968 is located on the Michigan Legislature website or can be accessed here: **Click here to be directed to PA 2 of 1968.**

Recommendation: The *Budget Rules* document should be reviewed periodically throughout the year to ensure compliance with the requirements set forth therein. Further, the language should be updated to reflect the transition of accounting work as part of the current budget preparation process.

Recommendation: The budget procedures provided to us by staff begin with the steps that are taken once the written recommendation for a Budget Amendment and/or Fund Transfer has been completed by the Executive Board. However, we recommend establishing procedures for the steps that take place prior to the amendment or transfer being presented to the Executive Board. Best practices for such steps include:

- An initial discussion with the Finance Director and the relevant Department Head/Elected Official should take place to evaluate the budgetary impact and the operational need for the potential amendment/transfer.
- The County Administrator is informed of the discussion and provides input/feedback and determines whether the issue will be brought before the Executive Board.
- If so, the County Administrator, Finance Director, and Department Head/Elected Official will jointly present the proposed amendment/transfer in the spirit of partnership, each explaining his or her support from an administrative, financial, and operational aspect, respectively to the Executive Board and then to the full Board.

Financial Reporting

Reporting is a key element of accountability, accuracy, and transparency. Reports convey the information needed to evaluate and monitor County activities and make financial decisions. Reports are only as good as the underlying information used to create them. This underscores the importance of utilizing a reliable software system, providing staff with adequate training, and implementing strong internal controls.

Financial Reporting to the Board of Commissioners

At a minimum, the following reports should be provided to the County Board by the Finance Director monthly: Budget-to-Actual Comparison Reports, Cash and Investment Balance Report for all accounts, and Check Disbursement Reports. These reports should contain the level of detail necessary for the Board to conduct a thorough review of the information, but without being so detailed that the report becomes too lengthy and difficult to understand. A key role of a Finance Director is summarizing and explaining complex financial information in a way that is clear and understandable to the Board, committees, other agencies, and the public.

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Recommendation: We recommend the Finance Director provide financial reports to the County Administrator and Board in advance of each board meeting so questions can be asked and researched prior to the public board meeting, and thorough answers can be provided. Any such meetings or discussions must comply with Open Meetings Act requirements. Monthly financial reporting is required by the *Budget Rules* document adopted by the Board of Commissioners as a part of the annual budget document. Some monthly reports have not been provided to the Board regularly. In order to fulfill its fiduciary responsibilities – which includes being an integral part of the County's internal control structure – the Board of Commissioners should receive financial information consistently. Therefore, we further recommend that the County Administrator and Finance Director develop a plan to provide consistent reporting which includes designating appropriate staff to serve as a backup for generating reports for the Board during times of employee vacations or turnover.

We also recommend that relevant County staff attend training on governmental accounting, budgeting, and reporting, to keep apprised of new accounting standards and regulations set forth by the Michigan Department of Treasury.

Other Financial Reporting

County governments are required to submit financial reports to other agencies such as the Michigan Department of Treasury, granting agencies, regulatory agencies, vendors, etc. It is the responsibility of the Finance Director to oversee the submission process to ensure that accurate, timely financial reporting is taking place.

Recommendation: Detailed information gathering and report generation may be performed by other key staff; however, a mechanism should be in place to ensure information is reviewed by the Finance Director and submitted timely. Unless requirements specifically state otherwise, approvals, signoffs, and submissions should be completed by the Finance Director. Our understanding is that some financial reporting has been transferred to the Finance Director, including reporting and submissions for certain Egrams filings, State Withholding, 941s, and W-2s. Any financial reporting and submissions have not transitioned to the Finance Director yet, should be transitioned as soon as practical, and appropriate signing authority should be transferred to the Finance Director as well. Likewise, Employee benefit submissions, such as MERS information, should be transitioned to the HR Director if this has not occurred yet.

Financial Accounting Software

Functionality

The County currently uses Harris Software for the majority of its accounting needs. Discussions with staff indicated that there may be an interest in looking into BSA Software, as the County already uses the BSA tax module for property tax transactions.

Many accounting software packages have internal controls embedded into their processes. These built-in controls include online approvals, reviews, reconciliations, audit trail documents, and the ability to scan and attach supporting documentation for each transaction – expenditures (invoices), journal entries, budget amendments, transfers, cash receipts, etc. Such features could reduce or eliminate the need for extraneous paperwork and filing. Harris may have some of this functionality. Various staff have communicated they are perhaps not utilizing the software to its

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full potential. This may be because more training is needed on the software, or because the system is cumbersome and not user-friendly.

Recommendation: There is no single "best" system, as different software packages each bring their own strengths and weaknesses. However, we encourage the County to review its accounting software system and evaluate other options. We recommend only considering software options that are tailored specifically to governments and integrate general ledger, payroll, accounts payable, receipting, and property taxes modules. This is key to minimizing human error and creating efficiencies through maximizing integration of systems (including tax, payroll, general ledger, cash disbursements, etc.) from an accounting perspective within the County. We further recommend incorporating IT as an integral part of such research.

System Access Controls

A critical part of the County's internal control structure is the level of access and permissions each staff person is allowed within the accounting software system and its applications. Currently, the Clerk's Office governs the system access controls for Harris software. However, the Finance Director is responsible for maintaining the integrity of the financial accounting system.

Recommendation: We recommend transferring the management of system access controls from the Clerk's Office to the Finance Director and IT. Relevant parties should create a reasonable timeline with benchmarks to shift the duties, with transition completed no later than year-end. Best practices for systems access controls include:

- Access within the system should be created by one person (IT) and reviewed by another (Finance Director).
- Each staff member with access to the system must have an individual login which is never to be shared.
- Personal accounts or personal email are not to be used for county business.
- The level of access granted should be appropriate for the staff person's job duties. Any changes to access should be evaluated to ensure they align with changes in job duties and/or changes in processes or procedures. Likewise, determining access permissions for a new employee should be carefully reviewed.
- Periodic reviews of access permissions and audit trails within the software system should be performed.

Purchasing

One of the biggest challenges for any organization is scaling its internal controls around purchasing to address both the associated risks (unauthorized purchases, overpaying for goods and services, failure to retain supporting documentation) with the demands for efficient operations (ability to approve and make timely purchases). Accordingly, a well-designed purchasing policy must be scalable and employ varying levels of control to different types of procurements. The County currently utilizes a combination centralized/decentralized purchasing function; procedures include:

- Purchasing begins at the departmental level, as the *Budget Rules* document provides authorization for departments to expend funds within their budgeted parameters, up to $4,500 without further approval requirements.

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- Departments receive their respective invoices directly. The department head/elected official reviews and approves by writing on the invoice the line item to be charged and initialing the invoice. The invoice is forwarded to the Finance office for payment. The Account Clerk will not process payment without department head/elected official's initials on the invoice.
- Procurements greater than $4,500 are managed by Administration in accordance with the County's *Budget Rules* document.
- Some department heads/elected officials have inquiry-only/read-only access to Harris to look at their budget line items. They are provided updated budget reports by Finance monthly which they review for accuracy and remaining available budget amounts.

Certain purchasing rules and requirements are delineated in the County's *Budget Rules* document. However, a comprehensive purchasing policy does not exist. Staff communicated to us that the Board frequently waives bidding requirements in order to expedite purchasing.

Recommendation: We believe the combination centralized/decentralized approach works well for a County of this size. However, we recommend that the County develop and adopt a comprehensive purchasing policy. A purchasing policy would increase efficiency, clarify approval requirements, and is in keeping with best practices and the requirements of grantor agencies. Additionally, while it may appear to be more efficient to waive the bidding requirements included in the County's *Budget Rules* document, we recommend the bidding requirements be waived only in rare circumstances. A mechanism should be implemented to streamline the bidding process so as not to cause delays in purchasing and to ensure compliance with 2 CFR 200 guidelines.

We also recommend continuing the practice of providing department heads/elected officials with budget reports and providing Harris read-only access when practical, because that provides the departments heads/elected officials the means to take ownership of their overall budget responsibilities.

Accounts Payable Disbursements

While directly related to purchasing, accounts payable is a distinct function: it is the process of getting vendors paid and recording expenditures into the accounting system.

The process of recording an invoice in the system requires multiple actions to occur:
1. The transaction must be properly coded, which requires identifying the budgetary account number to be charged.
2. Vendors must be set up in the system. Proper vendor setup includes ensuring the vendors contact information and any required tax forms are on file.
3. The transaction must be approved by one or more individuals.

Invoice Entry and Coding
Current procedures include:
1. Following the *Budget Rules* document, invoices that have been turned in by the departments are sorted by the Account Clerk into two batches – Friday checks (expected, routine expenditures) and Claims & Accounts (non-routine expenditures that require board approval prior to payment issuance).

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2. The Account Clerk stamps all invoices for date received.
3. The Account Clerk verifies that the department head/elected official has authorized by initialing and coded the invoice with account numbers. The Account Clerk reviews the coding for accuracy and makes corrections if necessary.
4. The Account Clerk then searches in the Harris Open Windows Accounts Payable module to locate the vendor number and writes it on each invoice.
5. Invoices are stored in stackable trays located near printer.
6. When invoices are ready to be entered, sort alphabetically.

Accounts Payable
Current procedures include:
1. In the Harris AP module, the Account Clerk creates the batch for the check run.
2. The Account Clerk names the batch – check date is used for Friday checks, and "00/'00 C&A" is used for Claims & Accounts.
3. Using the invoices, the Account Clerk completes each field for invoice entry by tabbing.
4. Once all invoices have been entered, the Account Clerk creates the "Invoice Edit Report" and reviews for accuracy.
5. The Account Clerk then forwards the report and invoices to the Assistant Finance Director and/or the Finance Director for review.
6. Make any necessary corrections.
7. Once corrections are made, the Assistant Finance Director and/or the Finance Director signs and dates the invoice edit report as "verified".
8. Upon approval, the Account Clerk prints relevant reports and checks.
9. The Account Clerk creates the positive pay file and emails it to the Treasurer for uploading to the bank.
10. The Account Clerk gives checks to Clerk and Treasurer for review and signature. Signatures are manual.
11. The Clerk reviews all checks for reasonableness. The Clerk obtains answers to any questions prior to signing. Should any questions arise, the Clerk may request supporting documentation for further review.
12. In the Clerk's absence, the Chief Deputy Clerk and Administrative Clerk have the authority to sign checks and follow the same procedures the Clerk does.
13. Checks are also provided to the Treasurer for signature. The Treasurer also reviews checks and supporting documentation. Should any questions arise, the Treasurer may request supporting documentation for further review. Signature is manual, and in the Treasurer's absence, the Chief Deputy Treasurer is authorized to sign checks. When both are absent, the Deputy Treasurer is authorized to sign on certain accounts.
14. The County Clerk and County Treasurer have the authority to void a check by marking the check as "void" and returning it unsigned to Finance to be voided in the Harris system.
15. Signed checks are returned to the Clerk with the Distribution Instructions report. This report specifies mailing instructions, any supporting documentation and/or remittance advices that must accompany the payments, etc.
16. The Clerk's Office copies and distributes checks in accordance with the Distribution Instructions report.
17. Check copy and invoices are stapled together and filed by vendor. Files are maintained in the Finance offices.

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Recommendation: The accounts payable functions have already transitioned from the Clerk's Office to Finance. We recommend keeping those duties under the umbrella of the Finance Director. We also recommend researching the functionality within Harris software. As indicated previously in this report, certain accounting software packages have built-in controls, with pre-assigned approval levels, electronic signature and filing and budgetary compliance features. These features are imperative to streamlining and creating efficiencies within the invoice approval and payment process. Examples specific to Accounts Payable include: the capability of making the invoice number a required field or has another control to prevent duplicate invoice payments; scanning and saving invoices into the system to have documentation at your fingertips, and other features designed to streamline operations and improve efficiency.

We further recommend transferring the distribution of checks from the Clerk's Office to Administration and establishing a timeframe to accomplish this by year-end. For internal control/segregation of duties purposes, the Account Clerk should not perform this task; therefore, we recommend the Administrator's assistant perform this task.

Vendor Management

Managing vendors is an important part of an entity's internal control structure. Accordingly, establishing strong procedures for adding, updating, classifying, and inactivating vendors is necessary. The procedures should be based on best practices that prioritize risk mitigation, internal controls, and efficiency.

Currently, the Account Clerk and Assistant Finance Director have the ability to set up new vendors in the Harris system. Whenever one of these two positions enters the vendor in the Harris system, the other reviews the data entry to review its accuracy. A manual vendor notebook is maintained by the Assistant Finance Director containing vendor name address, etc. 1099 form and other relevant data.

The Finance Director oversees issuing form 1099's.

Recommendation: We recommend that the County utilize a general ledger software that is capable of maintaining the comprehensive data that is currently retained in a separate, manual vendor notebook. We also recommend the Finance Director review at least annually the Harris system's audit trail for vendor additions, deletions, and updates. Additionally, at least annually, the Finance Director should conduct a thorough review of the entire vendor list of the County.

Recommendation: The individual recognized by the IRS as being authorized to submit 1099s should be the Finance Director. If this is not the case, we recommend transferring that authority prior to year-end.

Physical Controls

Blank check stock is kept in a locked drawer located in the Finance office shared by the Assistant Finance Director and Account Clerk. Keys to the locked drawer are provided only to the County Administrator, Assistant Finance Director, and the Account Clerk. The Treasurer's Office stores the majority of the County's check stock locked in the Treasurer's vault. The Treasurer's Office issues reams of current check stock as necessary to the relevant department up request and are tracked by a log. Therefore, only the current reams of checks are located in the Finance office.

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Recommendation: We recommend proper physical controls be established with limited access to blank check stock. Ideally, the person generating the check runs should not have access to the check stock. Therefore, the key to the locked drawer containing blank check stock should be transferred from the Account Clerk to the Finance Director.

Credit Card Transactions

Credit cards (or purchasing cards, as they are sometimes called in government) have become a widespread and essential tool for government purchasing. Credit cards are often the only form of payment available for certain online purchases. However, they are not without risk. Credit cards can be misused by the employees to whom they are issued, and card numbers can be compromised by fraudsters. Accordingly, it is important to put in place appropriate safeguards when using these purchasing tools.

The three primary controls that governments employ are: (1) assigning unique cards to each employee with a business need (i.e. not sharing cards), (2) limiting the available credit offered to cardholders, and (3) timely reconciliations of all credit card transactions to ensure they are legitimate and properly recorded.

Recommendation: We recommend that the County adopt a robust credit card policy that clearly spells out the limitations of their use (and expressly forbids personal use), the requirements for maintaining and submitting receipts, and timely reviewing and approving transactions for proper coding and identification of potentially fraudulent activity and limit the issuance of cards only as necessary. Findings were reported in the 2022 audit highlighting the need for stronger controls over credit card usage. A policy would be an effective tool to correct these findings.

Payroll

Most payroll functions have already transitioned from the Clerk's Office to Finance and Human Resources (HR).

New Employees and Updates to Existing Employees

When a new employee is hired, the HR Director:
1. Prepares a New Employee Checklist.
2. Gathers necessary documents.
3. Meets with new employee, reviews and completes forms, reviews benefits, and directs employees to the relevant employee policies and contracts on the county's network.
4. Prepares employee files:
   a. Personnel File – application, offer letter, etc.
   b. Payroll File – W-4, New Hire Form, direct deposit, etc.
   c. HIPPA File – insurance information
   d. I-9 Binder – I-9s are filed separately, as required
   e. UNUM Binder – life insurance beneficiary form
5. Payroll file is given to the Assistant Finance Director. Once the employee profile is set up in the Harris payroll system, payroll file is returned to HR, and HR verifies accuracy of entry in system and files information.

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New employees are entered into the system by the Assistant Finance Director:
1. Source information (payroll file) received by HR and entered into system.
2. Information returned to HR upon completion; all updates reviewed by HR.
3. Same procedures followed for updates to existing employees – add/cancel/adjust deductions, direct deposit, etc.

Timesheets
- Paper timesheets are filled out by hourly employees for each day worked, and for salaried employees for leave time only. There are several customized versions of timesheets tailored to the position held.
- Timesheets are turned into the department heads/elected officials (or authorized signor in the department head/elected official's absence) who review and sign each timesheet and turn them into the Assistant Finance Director.

Payroll Processing
1. Any pre-payroll changes are submitted by the HR Director to the Assistant Finance Director, who enters the updates; the changes are then reviewed by the HR Director. Before and after screen shots are attached to the source documents maintained by HR as an audit trail.
2. Timesheets are collected by the Finance office. The Account Clerk codes timesheets manually for non-24/7 employees; for 24/7 employees, coding is done by the Assistant Finance Director, who also calculates shift differentials and overtime for the 24/7 employees.
3. The non-24/7 timesheets are reviewed by the Assistant Finance Director, and the 24/7 timesheets and Shift Differential Worksheets reviewed by the Finance Director.
4. Once timesheets are reviewed and approved, the Assistant Finance Director creates the current pay file in the Harris system and then enters the timesheet data. This step is planned to be transitioned to the Account Clerk.
5. The time edit report is printed and agreed to the paper timesheets by the person who entered the data into Harris.
6. Finance calculates payroll in Harris, including taxes and deductions; print payroll report by department and print payroll report by employee name.
7. The Distribution Report by Department is reviewed by the person who entered the timesheets into Harris against the timesheets and Finance Director reviews Distribution by Employee.
8. The Assistant Finance Director calculates leave accrual monthly and reviews Maintain Leave Reports with the timesheets for verification of manual entry of leave/comp for salaried employees and24/7 comp earned adjustments. The HR Director provides the Assistance Finance Director with an accrual leave report to verify accuracy.
9. The Assistant Finance Director print Checks and direct deposit stubs.
10. The Assistant Finance Director creates, prints, and uploads direct deposit files to bank. The check register is delivered to the Treasurer and the Treasurer's Office approves direct deposit upload; Finance saves confirmation of upload.
11. The Assistant Finance Director closes payroll after Treasurer's office releases the upload. The Assistant Finance Director or the Finance Director post payroll to the general ledger.

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12. The Positive Pay file is created in Harris by Assistant Finance Director and emailed to Treasurer; Treasurer uploads to bank.
13. Finance delivers checks to Clerk and Treasurer for signature. Checks and direct deposit stubs are returned to the Account Clerk for photocopying, folding/stuffing verifying checks to distribution list created by HR.
14. Paychecks and stubs are distributed by the HR Director.

The Finance Director oversees issuing and submitting 941s, W-2 and W-3 information and State Withholding.

Physical Controls

Employee records - Personnel files from May 2022 forward are maintained by the HR Director; personnel files prior to May 2022 are in the custody of the Clerk.

Blank check stock is kept in a locked drawer located in the Finance office shared by the Assistant Finance Director and Account Clerk. Keys to the locked drawer are provided only to the County Administrator, Assistant Finance Director, and the Account Clerk. The Treasurer's Office stores the majority of the County's check stock locked in the Treasurer's vault. The Treasurer's Office issues reams of current check stock as necessary to the relevant department upon request and are tracked by a log. Therefore, only the current reams of checks are located in the Finance office.

Recommendation: We recommend the County consider utilizing a timekeeping system where the hours can be imported into the payroll module instead of manually entered. Integration of a time management software with payroll processing software is key to minimize error. If the County explores other accounting software, it may be useful to know that some payroll systems also allow employees to submit updates to their records and view their pay stubs online, using password-protected system controls and review processes evidenced by system audit trails.

Recommendation: We recommend the County consider automating some of its payroll processes within the Harris software system, including utilizing import and electronic storage capabilities for timesheets, emailing direct deposit stubs instead of stuffing and distributing, and preparing the 941 reports within the Harris system. If Harris has the functionality, these steps could improve efficiency and reduce input error. A finding was reported in the 2022 audit stating that not all 941 reports had the proper support for the compensation figures included. An automated process could assist with report accuracy and review controls.

Recommendation: Staff indicated that the Treasurer's Office is provided an overall total of the amount to transfer in the bank for each payroll with no supporting information. We recommend that a report be provided to the Treasurer's Office which lists the payroll expense totals posted in the general ledger by department, to be reviewed by the Treasurer for reasonableness, to provide another layer of high-level review before the bank transfers take place. The 2022 audit report included a finding that payroll registers are not being independently reviewed and approved. The finding appears to have addressed by incorporating levels of review within the Finance Office; however, providing the departmental report to the Treasurer could be another effective control.

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Recommendation: Our understanding is that the duties discussed in this recommendation are already segregated. However, we wanted to include this information due to the heightened sensitivity of payroll transactions, as a reminder to employ continued best practices. The individual who inputs employee information and hours from the person should be separate from those who perform the payroll bank transfers, upload the direct deposit files, and file the 941s and W-2s. Those who have access to employee records in the payroll module should not have the permissions required to make bank transfers, upload direct deposit files, or sign payroll checks/direct deposit stubs. Social security numbers and other highly sensitive information should be handled with great care and not emailed. Additionally, personnel files should remain locked and under the management of the HR Director. Our understanding is that personnel files prior to May 2022 remain in the Clerk's Office rather than transferred to HR. If not already done, we recommend the County consult an attorney to verify the appropriate legal custody of employee records.

Recommendation: We recommend proper physical controls be established with limited access to blank check stock. Ideally, the person processing payroll should not have access to the check stock. Therefore, the key to the locked drawer containing blank check stock should be transferred from the Account Clerk to the Finance Director.

Revenue/Cash Receipts

General and Billing Revenue/Receipts
Current procedures include:
- Receipting is done by all Treasurers Office staff, which includes the Treasurer, Chief Deputy, Deputy, and a Deputy/PRE Auditor. For delinquent tax receipts, there is a shared front desk computer. Staff share a login, but the BSA software system has a mechanism in place to separately identify each person recording transactions in their audit trail (the County uses BSA's tax module). Staff receipts in other revenues such as animal licenses, principal residence exemptions, billings, and Departmental Transmittals under their respective logins.
  - If a payment is made in cash over the counter from a customer, anything $500 and over is verified by another employee. Written verification including dual signature is not required. If cash is received as part of a Department Transmittal deposit, regardless of the amount, the cash is counted by two separate individuals and a dual signature is provided on the transmittal form.
- If a payment is received for a billing created by the Finance Office (such as quarterly billings to other agencies for services rendered), it is verified to the invoice prior to receipting in and kept in a Receivable Binder which includes the invoice, receipt, and a copy of the check. A copy of the receipt is mailed to the payor and forwarded to the Finance Office.
  - If the invoice was created by the Treasurer's Office (such as refunds or PRE denials), a Deputy separate from who created the invoice, will agree the amount received to the invoice and then receipt the amount in, keeping check invoice and receipt together.
- Transmittals are brought over daily/weekly/monthly from the Departments – If there is cash it is verified and signed off for by the person bringing the transmittal.
  - Checks are verified to make sure all the correct information is there.
  - Checks cash and credit cards are verified to the transmittal along with account numbers.

o The transmittal is then entered, and a copy of the receipt and transmittal go back to the department, which the department head/elected official reviews for accuracy. Copies are scanned in monthly and saved on the Treasurer's network.

Bank Revenue/Receipts

- Bank Accounts are checked daily for NSF and Revenues coming in. The Treasurer, Chief Deputy, and Deputy have access to initiate transfers; the Chief Deputy and Deputy have a dollar amount limit.
- When a State/Federal Revenue is deposited into the bank – The revenue is checked on the grant system (i.e. Sigma) and recorded in the general ledger by the Chief Deputy.
  o Once confirmed through the system, prior to receipting in the amount is verified with the Grant paperwork that was submitted.
  o Once receipted, the amount, receipt number and date are recorded by the Chief Deputy in the appropriate portion of the Grant Tie Out and a copy of the receipt/Sigma report/bank amount/grant submission is placed in the appropriate binder – (State Payments/Federal Grants). A copy is also provided to the Finance office.
- Receipting is done by the Chief Deputy; in their absence, a Deputy does it.

Credit Card Receipts

Credit card receipts are verified with the Daily Receipt Journal. This process is done daily by the Chief Deputy, and in their absence a Deputy can do it. The Credit Card amount is verified to the amount that the department transmitted. If there is a discrepancy, Point and Pay is checked and the department is notified to figure out if a transaction is missing or incorrect.

Recommendation: We recommend that all cash received by the Treasurer's Office be counted by two separate individuals and verified with a dual signature, regardless of amount collected. The $500 threshold should be eliminated.

Recommendation: Some County departments include supporting documentation with their Departmental Transmittal which agrees to the amount being deposited. In these instances, the Treasurer's Office scans and retains this information. However, such documentation is not required of all departments. We recommend that all departments provide a report generated by the software system they utilize, which can be used to verify the accuracy of the amount included on the Departmental Transmittals. If it is not possible to generate a report from the system, a spreadsheet which is verified at the department level can be utilized.

Recommendation: We recommend that the Treasurer's Office look into the functionality of the Harris system to determine whether supporting documentation can be scanned and attached to each receipt in the system, rather than scanned and stored separately. Some software systems offer this feature, and the documentation is at your fingertips, promoting streamlined, efficient operations.

Recommendation: We recommend that the permissions allowed to access banking information and initiate transactions be reviewed regularly and should be governed by the County cash and investment policy. Permissions should be provided only when necessary, and steps should be taken to ensure proper review procedures over all bank transactions.

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Banking and Bank Reconciliations

Banking

Current banking procedures include:

- Daily Cash out is done in 3 steps by all three Treasurer's Office employees; if one is gone the steps are alternated. Each step represents a separate Treasurer's Office staff person.
- Step One - Counts/Balances Drawer to the previous days receipt journal. $600 is kept in the cash drawer which is locked during the day and placed in the vault at night. All Treasurer's Office staff have individual key access to the cash drawer. There is only one key to the safe and to the vault. Keys are locked in a lockbox which is kept in a locked cabinet. The cash drawer is kept in a safe in the vault each night. Step one verifies cash/check/ACH/credit cards are all in balance along with the cash drawer, fills out a Cash Out Reconciliation Sheet, and Creates a Receipt by Funds Worksheet. When the previous day is in balance, the receipts are distributed, and a "deposit" is created which is verified to the Receipts by Fund along with the Step 2 verification.
- Step Two - Verify Step One's work – recount cash that is pulled for deposit, double check checks, verifies Cash Out Reconciliation sheet, Deposit Break Down and Receipts by Fund, and then breaks down money (cash/checks) based on the Receipts by Funds and deposit that is created when disbursed. Step Two the creates a Weekly Reconciliation that separates cash, check, eft credit cards and transfers which is verified later to the deposit slips from the bank. In the event a transfer is needed (meaning not enough cash to be broken down between funds) the Treasurer is notified and will make the deposit. Then the person initiating the transfer will verify it.
- Step 3 – "Banking"– Reverify Step Two by recounting the Cash and Checks to make sure that they are separated into the correct funds and scan checks into the appropriate bank account. At least weekly or as needed, the bank deposit with cash is done- Step 2 starts the process – step 3 verifies and puts deposit in bag. Step 2 takes weekly deposit to bank and step 1 verifies with deposit slips when they come in.

Receipts/Cash Out Forms – As an additional control measure, four random days are pulled monthly by the Chief Deputy and verified and signed off by the Treasurer. Any discrepancies noted by the Treasurer are resolved and training/follow up is pursued if necessary.

Bank Statement Reconciliation

The reconciliation of bank statements is performed by the Treasurer's Office. Current procedures include:

- The Chief Deputy obtains bank statements from the Huntington internet website.
- The Chief Deputy then creates an Outstanding Check Reconciliation in Harris for the Common Account and compares it to the balances in the Harris general ledger. The bank reconciliation itself is done in Excel, but the outstanding checklist comes from Harris.
- The Chief Deputy creates journal entries from the information on the bank statements to record interest and/or disbursements. The journal entries are then given to Treasurer for verification and approval, along with a copy of front page of statement for back up.
- After review and approval, the Treasurer will submit journal entries to the Finance Office for entry. The Treasurer's Office does not have permissions to enter journal entries.

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- After all journal entries have been entered and posted by the Finance Office, the Chief Deputy reviews the updated information to ensure the reconciliations agree with Trial Balance summary in the general ledger. The Chief Deputy then completes the Reconciliation Sheet by signing, dating, and giving to the Treasurer for approval and signature. All supporting paperwork is stapled to the reconciliation.
- Reconciliations are generally completed no later than the end of the following month.

Recommendation: Optimally, bank reconciliations should be performed within the software system and not manually. It can be more efficient, reduce potential manual errors, and an effective system will provide an audit trail showing evidence of segregation of duties and approvals.

Recommendation: Staff has indicated that bank transfers/online payments made to outside vendors and agencies include a process where the transfer is initiated by one person and approved by an independent person. However, staff communicated that is not the case for transfers internal to the county between banks. We recommend developing a process to segregate initiating and approving all bank transfers.

General Ledger Management and Year End Procedures

General Ledger Management

In general, the Finance Director is ultimately responsible for the completeness and accuracy of the general ledger. In addition to the procedures and controls that govern the transactions cycles detailed in this report, it is necessary to utilize manual journal entries to properly record financial information. It is essential that a mechanism is in place to ensure all journal entries are reviewed and approved separately from the person who prepares the entry.

Year End Procedures

With respect to year-end procedures, the Finance Director will need to perform cutoff, accrual, deferral, and other closing procedures to ensure correct balances. The Finance Director is charged with preparing final trial balances, financial statements, and providing supporting documentation to the auditors. Additional reporting to the Board of Commissioners is also recommended to convey and discuss the year's performance. Accordingly, a set of procedures should be in place to identify and record such transactions. This type of high-level accounting is complex, and the appropriate level of expertise and support should be utilized.

Recommendation: We recommend the Finance Director and other relevant staff receive guidance and attend training in these areas. Refer to the Training and Professional Organizations section of this document. We further recommend that journal entries and year-end adjustments are reviewed independently of the person who calculates and enters the transactions in the general ledger. A finding noted by the auditors in the 2022 audit report indicated they detected a sample of journal entries that were not property reviewed and approved – this should be addressed in a timely manner.

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Grant Management

Grants, both public and private, provide an alternative form of funding for governments and often come with special requirements that an awardee must follow. While receiving a grant award can be provide significant relief to budgets based on scarce resources, especially in local governments, failure to meet the specific activity and reporting requirements of grants will likely have negative consequences – politically and financially.

The County has a responsibility to safeguard taxpayer dollars while adhering to laws and regulations governing grant activities. Developing internal controls for grant activities is important for the prudent use of public funds as well as to prevent mishandling of funds. Strong internal controls also protect employees by defining responsibilities in the grant process.

Internal controls over grants ensure the effectiveness and efficiency of operations, the reliability of reporting, compliance with applicable laws and regulations, and provide reasonable assurance of the following:
- Grant funds are expended only for allowable activities.
- Advances received are only for immediate cash needs and reimbursements made for costs incurred.
- Only eligible individuals and organizations receive assistance.
- Proper records are maintained for expenditures made using grant funds.
- Grant funds are used only during the authorized period of availability.
- Procurement of goods and services are made in compliance with applicable.
- Reporting on grant activities is streamlined.
- Any noncompliance discovered is promptly addressed.

Recommendation: We understand the County is in the process of updating its current Grants Management policy. We recommend the County consider incorporating some or all of these Grant Management procedures into its policy, specifically the 2 CFR 200 requirements. Grants Management is typically under the general direction of the County Administrator and Finance Director. These high-level steps will centralize the management of the County's grants.

Best Practice Procedures for Grant Management
Step 1 - Grant Discovery
When a grant is identified, by Administration, Finance, or department head/elected official (grant initiator), a communication should be sent to the Finance Director with the following information/attachments:
- Purpose Statement – How does the grant align with department goals or County strategies?
- Needs Statement – What specific needs will this grant funding address?
- Intended Amount – What is the maximum amount the department intends to request, and is a local match required? If a local match is required, Board approval must be obtained prior to proceeding to Step 2.
- Any materials collected on that describes the grant, including a draft project plan, if applicable.

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The Finance Director will review these materials, assess strategic alignment, and analyze funding availability and grant requirements (including the cost to administer the grant).

Step 2 – Determination and Intent to Apply

After review, the Finance Director will discuss the grant request with the County Administrator to verify alignment with overall County objectives.

The Finance Director will also determine whether it is administratively feasible to pursue the grant. A grant is considered administratively feasible when the award amount is greater than the estimated cost of administration, and the County has the appropriate staffing and expertise to fulfill the grant requirements.

If a grant is determined to meet the County's overall objectives, departmental goals, and is administratively feasible, the Finance Director will provide to the grant initiator an "Intent to Apply" letter. This letter is the authorization for the grant initiator to take the next steps to complete an application and coordinate required documentation with the Finance Director. Without this letter, a grant initiator does not have the authority to pursue the given grant. A notice of intent may be filed with the granting agency without prior Board approval if a local match is not required.

If a grant is determined to not be administratively feasible, but the grant initiator believes the grant is still worth pursuing, the grant initiator may request further discussion with the Finance Director and County Administrator.

Step 3 – Grant Application and Submission

The grant initiator should submit a complete application, including supporting documentation, to the Finance Director at least two weeks before the application deadline. A complete application packet should include:
- All application documents required by the granting agency, completed.
- Timeline to award notice, disbursement, and closeout.
- Reporting requirements and timeline.
- Primary point of contact for the grantor.
- Submission requirements (mail or electronic).

The Finance Director will review the application packet and submit the application on behalf of the grant initiator. Upon submission, a notification will be sent to the grant initiator and the primary point of contact for the grantor, if different from the grant initiator.

Step 4 – Post-Submission and Receipt of Funds

After submission, the Finance Director will perform or supervise all accounting transactions related to the grant. The Finance Director will communicate the budget line items associated with the grant to the grant initiator and other relevant accounting staff, including the Treasurer's Office, so they are notified of the revenue that will be received.

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Grants are typically reimbursement-based, but advances can be accepted from the grantor if there is an immediate cash need for the program or department. Reimbursement requests should be made by the grant initiator or their department head to the Finance Director. Proof of grant expenditures, including invoices for tangible goods or records for services performed, must be submitted with the reimbursement request. Requests for advances, if applicable, must be made in writing and evaluated prior to the advance being made.

Step 5 – Monitoring, Reporting and Closeout

The Finance Director will coordinate with the grant initiator, to receive data required for reporting. Department heads/elected officials are ultimately responsible for establishing operating processes that provide data related to grant reporting.

The Finance Director will monitor grant revenues and expenditures over the lifecycle of the grant. Actual grant revenues and expenditures can be observed in the monthly budget reports provided to department heads/elected officials.

Upon closeout, the Finance Director will reconcile eligible expenditures to revenues received for the applicable period, to support final reporting by the grant initiator.

Step 6 - Intent to Renew

If the given grant provides multiple grant cycles and the opportunity for renewals, the department head/elected official will provide an "Intent to Renew", communication to the Finance Director, describing the requirements to renew – including outcomes required from the grant.

The Finance Director will evaluate the impact of the continuing the grant.

Conclusion:

The intent of these steps is to support departments in pursuing departmental goals, including funding those goals with grant dollars, while performing the necessary due diligence evaluations in keeping with strong financial management, potentially complex accounting and reporting implications, and internal control considerations.

Federal Grant Compliance

The Code of Federal Regulations (CFR) governs the management of federal grants. Specifically, 2 CFR 200 establishes federal grant compliance requirements.

The purpose of the requirements, an excerpt of Subpart B – General Provisions – of 2 CFR 200 is provided here:

(1) This part establishes uniform administrative requirements, cost principles, and audit requirements for Federal awards to non-Federal entities. Federal awarding agencies must not impose additional or inconsistent requirements, except as provided separately, or unless specifically required by Federal statute, regulation, or Executive order.

(2) This part provides the basis for a systematic and periodic collection and uniform submission by Federal agencies of information on all Federal financial assistance programs to the Office of Management and Budget (OMB). It also establishes Federal policies related to the delivery of this information to the public, including through the use

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of electronic media. It prescribes the manner in which General Services Administration (GSA), OMB, and Federal agencies that administer Federal financial assistance programs are to carry out their statutory responsibilities under the Federal Program Information Act.

2 CFR 200 also lays out the administrative requirements, established principles for determining allowable costs, and sets forth standards for single audit requirements. Click here for a direct link to 2 CFR 200 on the Code of Federal Regulations website.

Recommendation: We recommend that the Finance Director and other key staff attend trainings specific to federal grant requirements to ensure proper grant accounting, recording, and compliance.

Additionally, the Finance Director should log grants onto a Schedule of Expenditures of Federal Awards (SEFA) and update it regularly throughout the year. The SEFA is a mechanism to identify federal grants, review compliance, and is also used to determine the need for a Single Audit. As defined in 2 CFR 200, a Single Audit is required when federal expenditures exceed the established threshold of $750,000 in one year. Single Audits include additional testing and reporting on internal controls and compliance. It is the responsibility of the Finance Director to determine whether a Single Audit will be necessary and communicate that to the external auditors. Click here to be directed to the American Institute of Certified Public Accountants (AICPA) guidance and practice aids for preparing a SEFA.

Our understanding is this process has not been fully transitioned into the Finance Director's office and we recommend transitioning the work as soon as practical.

Training and Professional Organizations

We have recommended throughout this report, the need for staff training. This is due to the turnover of key County staff, and also because the world of governmental accounting and grant compliance is evolving rapidly.

Here is a list of organizations that provide support and training to local units of government:
Michigan Government Finance Officers Association (MGFOA)
https://www.migfoa.org/

Government Finance Officers Association (GFOA)
https://www.gfoa.org/

Michigan Municipal League
https://mml.org/

Michigan Association of County Administrative Officers (MACAO)
https://micounties.org/macao-michigan-association-of-county-administrative-officers/

MSU Extension Center for Local Government Finance and Policy
https://www.canr.msu.edu/center_for_local_government_finance_and_policy/

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Conclusion

We sincerely appreciate the opportunity to be of service to Leelanau County. It was our pleasure to work with County staff – their insights and explanations were integral to the creation of this report. We look forward to discussing this report and our recommendations with you further.

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