

March 4, 2024

To the Board of Commissioners
Genesee County, Michigan

We have audited the financial statements of Genesee County, Michigan (the "County") as of and for the year ended September 30, 2023 and have issued our report thereon dated March 4, 2024. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Other Recommendations and Related Information

Section III - Legislative and Informational Items

Section I includes information that we are required to communicate to those individuals charged with governance of the County. We will report this information annually to the Board of Commissioners of Genesee County, Michigan.

Section II presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the County in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

Section III contains updated legislative and informational items that we believe will be of interest to you.

We would like to take this opportunity to thank the County's staff, particularly the CFO's office, for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the Board of Commissioners and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Pamala L. Hill, CPA



Amanda Cronk, CPA

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 9, 2023, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the County. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the County's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the County, including compliance with certain provisions of laws, regulations, contracts, and grant agreements; certain instances of error or fraud; illegal acts applicable to government agencies; and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated March 4, 2024 regarding our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on November 8, 2023.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County are described in Note 1 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during 2023.

We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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.

Section I - Required Communications with Those Charged with Governance (Continued)

The most sensitive estimates affecting the financial statements were (1) pension and retiree health care liabilities and (2) estimated allowances for delinquent property tax penalties and interest. Pension and other postemployment benefit liabilities are based on calculations performed by actuaries, which include assumptions related to long-term rates of return, mortality, and demographics. Delinquent property tax penalties and interest are based on the past history of payments on delinquent properties. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

For the purpose 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 auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Uncorrected misstatements of the financial statements related to the following: business-type activities and Delinquent Tax Revolving Fund related to pending litigation (\$972,184 in current liability and expense) and governmental activities related to recording copier debt and asset (\$429,564 long-term asset, \$73,265 current liability, and \$356,299 long-term liability), as well as corresponding entries to revenue and expense at the fund level for the General Fund (\$254,003), GCCARD Fund (\$33,618), and Health Fund (\$41,088). Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. However, uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future period financial statements to be materially misstated.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the County, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 4, 2024.

Management Consultations with Other Independent 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 County'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.

**Section I - Required Communications with Those Charged with Governance
(Continued)**

To our knowledge, there were no such consultations with other accountants.

Other Information Included in Annual Reports

Our responsibility for other information included in annual reports does not extend beyond the financial statements, and we do not express an opinion or any form of assurance on the other information. However, we read the introductory and statistical sections, and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially misstated or materially inconsistent with the information or manner of its presentation appearing in the financial statements.

Section II - Other Recommendations and Related Information

During our audit, we noted areas where we believe there are opportunities for the County to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented below for your consideration:

County Fiscal Health

While the Board of Commissioners and the CFO's office have done a thorough review of the General Fund expenditures and budgets over the course of the recent few years, we still strongly suggest that the County consider doing a detailed long-term forecasting and cash flow analysis to ensure that all decisions being made are viewed not just in a short-term lens but also with long-term consequences in mind. The analysis performed to date does include planned consolidation of space, which is anticipated to provide savings for the County and will include consolidation of grant-funded departments to reduce the County's footprint. By reducing the administrative footprint, capital expenditures are also expected to be reduced. This analysis should also include funding of legacy costs and the capital needs of the County. At September 30, 2023, the General Fund fund balance stood at \$40,077,118 after utilizing approximately \$2.1 million of fund balance in the current year, the majority of which related to capital. Of the 2023 year-end fund balance, the County intends to use approximately \$8,500,000 for fiscal year 2024 expenditures. While this use of fund balance is planned, we encourage the Board of Commissioners and management to ensure this is closely monitored as this use of fund balance is not sustainable in the long term especially when used for operations as opposed to one-time capital purchases.

In addition, the retiree health care trust fund (VEBA) is projected to deplete all of the assets currently set aside by the end of fiscal year 2027, at which point the General Fund will be responsible to pay all retiree health care costs, which, in the current year, were approximately \$15 million. In addition, based on the projected cash flows for the retiree health care trust fund, as determined by an independent actuary, the annual costs of retiree health care will continue to significantly increase for approximately the next 15-20 years, which will continue to put a financial strain on the General Fund. The increase in retiree health care costs coupled with the anticipated increase in required pension contributions will further constrain General Fund resources. The health care coalition will aid in future health care decisions in an effort to continue to explore possible savings.

Controls over Economic Development Corporation, Discretely Presented Component Unit

During our audit of the Economic Development Corporation (EDC), it was identified that cash transactions between the EDC and the City of Flint, Michigan were not accounted for appropriately. While these amounts did not have a significant impact to the total component units of the County, the dollar amount was significant to the EDC, we do recommend that the EDC reviews processes and internal controls as it relates to cash and cash transactions to ensure the accounting treatment and related controls are appropriate. We also recommend that the County consider if additional consideration over these processes should be done at the county level.

Section III - Legislative and Informational Items

Monitoring Lease, SBITA, and PPP Activity

GASB Statements No. 87, *Leases*; No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs); and No. 94, *Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements*, were effective in fiscal years 2022 and 2023. Although significant analyses were performed to determine the applicability of the new standards and record any necessary adjustments, we want to stress the importance of implementing ongoing monitoring procedures over lease, SBITA, and PPP activity. When the County enters into new leases, SBITAs, or PPPs; existing agreements are modified; or other facts and circumstances change, consideration must be given to the impact those changes will have on lease, SBITA, and PPP accounting. In order to do so, the County must ensure there is a process in place to identify and appropriately account for new leases, SBITAs, or PPPs or changes to existing agreements on an ongoing basis or at least at the end of each year.

Cybersecurity and Information Technology Controls

Cyberattacks are on the rise across the globe, and the cost of these attacks is ever increasing. Because of these attacks, municipalities stand to lose their reputation, the ability to operate efficiently, and proprietary information or assets. Communities potentially can also be subject to financial and legal liabilities. Managing this issue is especially challenging because even a municipality with a highly mature cybersecurity risk management program still has a residual risk that a material cybersecurity breach could occur and not be detected in a timely manner. We understand that the technology department continues to monitor and evaluate this risk, which are critical best practices. Additionally, periodic assessment of the system in order to verify that the control environment is working as intended is a key part of measuring associated business risk. We encourage administration and those charged with governance to work with the technology team on this very important topic. If we can be of assistance in the process, we would be happy to do so.

Revenue Sharing

The fiscal year 2024 budget includes \$1.65 billion for revenue sharing. Further details of the breakdown of this amount are available at https://www.michigan.gov/treasury/0,,7-121-1751_2197---,00.html.

The fiscal year 2024 City, Village, and Township Revenue Sharing (CVTRS) program includes the following types of payments:

- CVTRS-Standard payment equal to 104 percent of the local unit's eligible fiscal year 2023 ongoing CVTRS payment amount
- CVTRS-CLFRF payment equal to 1 percent of the local unit's eligible fiscal year 2023 ongoing CVTRS payment amount
- CVTRS-PS payment equal to 2 percent of the local unit's eligible fiscal year 2023 ongoing CVTRS payment amount

As provided in the September 2023 Department of Treasury letter on City, Village, and Township Revenue Sharing (CVTRS) Fiscal Year 2024 Detailed Guidance, the citizens guide and performance dashboard are no longer required for 2024 CVTRS. Qualified local units will need to complete the following required documents to qualify for CVTRS-Standard, CVTRS-CLFRF, and CVTRS-PS payments:

- Form 4886 certification
- Debt service report
- Two-year budget projection

The due date for these CVTRS required documents was December 7, 2023.

Section III - Legislative and Informational Items (Continued)

The CVTRS-Standard and CVTRS-PS payments will be paid in one-sixth increments. Local units received a one-sixth payment on the last business day of October 2023, and the remaining payments are as follows:

- If the required documents were submitted on or before December 7, 2023, payments in one-sixth increments have been and will be made on the last business day of December 2023 and February, April, June, and August 2024.
- If the required documents were submitted after December 7, 2023, the December CVTRS-Standard and CVTRS-PS payments were forfeited; the remaining payments will be forfeited unless the required documents are received by the first day of a payment month (February, April, June, and August 2024), at which time one-sixth of the CVTRS-Standard and CVTRS-PS payments will be made on the last business day of each payment month thereafter.

The CVTRS-CLFRF payment will be received on the last business day of June 2024.

Additional program requirements for CVTRS-CLFRF and CVTRS-PS payments are as follows:

- CVTRS-CLFRF - Eligible local units must certify to the Treasury that the local unit has “fully obligated” or expended by December 31, 2023, or declined, the total amount of 2021 American Rescue Plan Act funds allocated to the local unit. The Treasury defines “fully obligated,” the definition of which applies only to the CVTRS program, as an order placed for property services; entering into contracts, subawards, and similar transactions that require payments; or appropriating the funds for specific purposes. This certification is due on March 30, 2024.

OMB Proposed Revisions to the Uniform Guidance

In October 2023, the Office of Management and Budget (OMB) posted proposed revisions for the Uniform Guidance for federal grants and agreements. The proposed guidance clarifies the applicability of requirements and terminology and includes some relaxation and clarification of certain requirements that required prior approval from federal regulators. A few key proposed changes include the following:

- Increase the audit threshold to \$1 million from \$750,000
- Increase the *de minimis* indirect cost rate from 10 percent to 15 percent
- Require the schedule of expenditures of federal awards (SEFA) to identify recipient of federal award for audits that cover multiple recipients

The proposed changes are included in more detail within the federal register at <https://www.federalregister.gov/documents/2023/10/05/2023-21078/guidance-for-grants-and-agreements>.

Plante & Moran, PLLC will continue to monitor any changes to the Uniform Guidance, and we encourage the County to monitor developments in this area.

Other New Legislation

Upcoming Accounting Standards Requiring Preparation

We actively monitor new Governmental Accounting Standards Board (GASB) standards and due process documents and provide periodic updates to help you understand how the latest financial reporting developments will impact the County. In addition to the summaries below and to stay up to date, Plante & Moran, PLLC issues a biannual GASB accounting standard update. The most recent update and a link to previous fall and spring updates are available [here](#).

Section III - Legislative and Informational Items (Continued)

GASB Statement No. 101 - Compensated Absences

This new accounting pronouncement will be effective for fiscal years ending December 31, 2024 and after. The statement requires all compensated absences be reported under a new unified model that provides recognition and measurement guidance for all compensated absences that meet certain criteria. This is a major shift from the prior standards that provided different recognition and measurement guidance for vacation leave versus sick leave. Under the new standard, all compensated absences (with some exceptions like parental leave and military leave) that meet three criteria are to be recognized (accrued). The three criteria are (1) the absence accumulates, (2) the absence is attributed to services already performed, and (3) the absence is more likely than not to be either paid or settled through other means.

A few of the more significant changes from prior guidance include the elimination of specific recognition criteria for sick leave (GASB 16's termination payment method and vesting method) in lieu of standard recognition criteria for all types of compensated absences that meet the criteria. In addition, the prior standards used the "probable criteria" as a measurement stick for recognition; GASB 101 lowers that threshold to more likely than not. More likely than not means a likelihood of more than 50 percent. Because GASB 101 does not prescribe the manner in which these leave liabilities are estimated once the criteria are met, organizations will have significant latitude in how these estimates are determined. Because of this, there may be additional reporting and additional disaggregation of historical employee leave usage information that may be required in order to come up with an accurate estimate of these liabilities. We strongly suggest organizations start thinking about these changes now, brainstorm estimation methodologies, and begin gathering the necessary information in order to successfully adopt this new standard.

GASB Statement No. 102 - Certain Risk Disclosures

This new accounting pronouncement will be effective for fiscal years ending June 30, 2025 and after. This statement requires a government to assess whether a concentration or constraint makes the primary government or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. It also requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date of the financial statements are issued. If certain criteria are met for a concentration or constraint, disclosures are required in the notes to the financial statements.

Significant GASB Proposals Worth Watching

The GASB is working on two comprehensive projects that result in changes to financial reporting for state and local governments.

The Financial Reporting Model exposure draft was issued in June 2020, and the final statement is expected to be released in mid-2024. This standard proposes changes to many aspects of the County's financial statements, including the management's discussion and analysis (MD&A), proprietary fund financial statements, and budgetary comparisons. In August 2023, the GASB removed issues related to reporting of governmental funds from the scope of this project.

The Revenue and Expense Recognition project aims to develop a comprehensive accounting and financial reporting model for transactions that result in revenue and expenses. The GASB has issued a preliminary views document that proposes a new categorization framework that replaces the exchange/nonexchange transaction notion with a four-step categorization process for classifying a transaction. In addition to this new framework, the proposal also addresses recognition and measurement of revenue and expense transactions. The exposure draft for this project is expected sometime in 2025.

Plante & Moran, PLLC has spent significant time digesting these new proposed standards and recently testified to the GASB about our feedback. We strongly encourage the County to monitor developments with these standards, as the potential impacts are quite broad.