Rehmann

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE UNDER SAS NO. 114

March 18, 2011

To the Board of Commissioners of
Washtenaw County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of ***Washtenaw County*** (the "County") for the year ended December 31, 2010, and have issued our report thereon dated March 18, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated January 6, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on January 6, 2011.

Significant Audit Observations

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 the year. 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. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

- Management's estimate of the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.

- Management's estimate of the insurance claims incurred but not reported is based on information provided by the entity's third party administrators and subsequent claims activity.

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.

No 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 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. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

- Under the modified accrual basis of accounting, revenues are recorded in the period in which they are both *measurable* and *available*. Available means that the revenues are collected by year-end or by no more than 60 days after year-end. Amounts not collected within that time period are recorded as deferred revenue. For the Water Resources Commissioner component unit, special assessments are levied on December 1 and are due no later than April 1 of the following year. An adjustment was made to increase deferred revenue by approximately $1.6 million to reflect special assessments that had not been collected as of February 28 (i.e., within 60 days after year-end). An adjustment was also made to decrease the beginning fund balance of certain Water Resources Commissioner component unit funds by approximately $59,000 for prior special assessment revenue that needed to be deferred.

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

Management Representations. We have requested certain representations from management that are included in the attached management representation letter dated March 18, 2011.

No 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 entity'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Washtenaw County and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Robson

Washtenaw County

Attachment A - Consideration of Internal Control Over Financial Reporting

For the Year Ended December 31, 2010

In planning and performing our audit of the financial statements of Washtenaw County (the "County") as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing 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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The deficiencies we noted that we consider to be significant deficiencies are described in the schedule of findings and questioned costs in the County's single audit report.

We did not audit the responses (from the County or applicable department) to the other matters discussed below and, accordingly, express no opinion on them.

<u>Other Matters</u>

Retiree Benefit Calculations. From our tests of ERS (Employees' Retirement System) benefit calculations, we noted in two out of five instances that the retiree had been credited with five years of purchased service but there were no documents to evidence the purchase. In one other instance, there was documentation in a file showing that a retiree purchased 1.5 years of service but was credited for it twice in the benefit calculations. Each of these three instances was for a retirement that occurred prior to 1998. We recommend that the County verify its current procedure for documenting purchased service and consider whether prior retirements should be reviewed and evaluated for proper treatment of documented purchased service.

County Response. We will implement this recommendation immediately. We believe that the retirees who were credited with five years of purchased service were part of an early retirement program offered to County employees who retired between March 1 and May 31, 1994. We are currently looking at past records of the Retirement Commission to verify this. When this information is located, we will add the needed documentation to all affected retirees' files. We are also researching the situation where a retiree was credited twice for 1.5 years of purchased service. For both of these situations, if it is found that a mistake has been made, we will correct for them (including any overpayment to the retiree) as required by the Retirement Ordinance.

We believe that our current procedures for documenting purchased service are very good. Requests to purchase service are submitted in writing by employees. Human Resources verifies the information submitted by the employee and calculates the cost the employee must pay to purchase the service time. These are then reviewed and approved by the Retirement Commission at one of their meetings. This is documented in the Commission minutes and a copy of the approved purchase of service is placed in the person's personnel file.

Disbursement of Court Agency Funds. As part of each audit, we test balances of various accounts within the County's agency funds to ensure proper accounting and reconciliation of these funds. During last year's testing, we noted a few accounts that had not been reconciled in several months, specifically related to the courts. While the reconciliations have been brought and kept up to date, we have noted that checks written by the courts on one or more of these accounts (which are primarily for the receipt and disbursement of court fees and restitution) are not reviewed by anyone other than the preparer. The absence of an independent review of these disbursements greatly increases the risk that misstatements (caused either by error or fraud) could occur and not be detected. In order to enhance internal control over this process, we recommend that the County implement procedures to ensure that disbursements are independent reviewed.

Trial Court Response. The Trial Court is in the process of changing their method for preparing and issuing checks. We have moved away from preparing handwritten checks. All checks are now prepared electronically using a check preparation program which tracks the check number, amount, date, payee and purpose. In addition to this change we are transitioning to a process wherein the checks will be prepared by one person and signed by a different person. We believe this will provide an independent review of these disbursements.

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Washtenaw County
Attachment B - Schedule of Adjustments Passed (SOAP)
For the December 31, 2010 Audit

In accordance with the provisions of SAS 107, *Audit Risk and Materiality* , we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 107, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenue	Expenses/ Expenditures
General Fund					
Credit/Procurement card amounts not accrued	$ -	$ (14,866)	$ 14,376	$ -	$ (490)
County Capital Projects					
AP recorded inapp.	$ -	$ 63,284	$ -	$ -	$ 63,284
AP not recorded	-	(76,668)	-	-	(76,668)
Credit/Procurement card amounts not accrued	-	(2,784)	350	-	(2,434)
Total CCP	$ -	$ (16,168)	$ 350	$ -	$ (15,818)
Parks and Recreation Fund					
Credit/Procurement card amounts not accrued	$ -	$ (5,428)	$ -	$ -	(5,428)
Non-Major Gov't Funds					
Credit/Procurement card amounts not accrued	$ -	$ (20,457)	$ 12,743	$ -	(7,714)
Internal Service Funds					
Credit/Procurement card amounts not accrued	$ -	$ (14,440)	$ 5,047	$ -	(9,393)
Governmental Activities Total					
Cumulative effect of items noted above	$ -	$ (71,359)	$ 32,516	$ -	$ (38,843)
Pension Trust Funds					
Credit/Procurement card amounts not accrued	$ -	$ (387)	$ -	$ -	(387)

WASHTENAW COUNTY
FINANCE

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March 18, 2011

Rehmann Robson
P.O. Box 449
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We are providing this letter in connection with your audit of the financial statements of ***Washtenaw County*** as of December 31, 2010 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Washtenaw County and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of March 18, 2011, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. We have made available to you all:

    a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

    b. Minutes of the meetings of Board of Commissioners or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.

We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, you have proposed adjusting journal entries that have been posted. We are in agreement with those adjustments.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

    a. Management,

    b. Employees who have significant roles in internal control, or

    c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

8. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us.

9. We have a process to track the status of audit findings and recommendations.

10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.

11. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

12. The County has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

13. The following, if any, have been properly recorded or disclosed in the financial statements:

    a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.

    b. Guarantees, whether written or oral, under which the County is contingently liable.

    c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.

14. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

15. There are no:

    a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

    b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies*.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.

    d. Reservations or designation of fund equity which were not properly authorized and approved.

16. As part of your audit, you prepared the draft financial statements. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements.

17. The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

18. The County has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

19. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

20. The financial statements properly classify all funds and activities.

21. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

22. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

23. Provisions for uncollectible receivables have been properly identified and recorded.

24. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

25. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal, if any.

26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

27. Deposits and investment securities are properly classified as to risk, and investments are properly valued.

28. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

29. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

30. With respect to federal award programs:

    a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

    b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

    c. We are responsible for complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

    d. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies (including material weaknesses) reported in the schedule of findings and questioned costs.

e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.

f. We have received no requests from a federal agency to audit one or more specific programs as a major program.

g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.

h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.

i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

j. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

l. We have charged costs to federal awards in accordance with applicable cost principles.

m. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

n. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.

o. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.

p. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.

q. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

r. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.

No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Kelly R Belknap

Kelly Belknap, Finance Director

Peter Collinson

Peter Collinson, Accounting Manager