

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Flint Area Narcotics Group	County Genesee
Audit Date September 30, 2003	Opinion Date January 15, 2004	Date Accountant Report Submitted To State: March 29, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no            | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes            | <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante &amp; Moran, PLLC</i>			

# **Flint Area Narcotics Group Genesee County, Michigan**

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**Financial Report  
September 30, 2003**

# Flint Area Narcotics Group

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## Independent Auditor's Report

To the Board of Directors  
Flint Area Narcotics Group  
Genesee County, Michigan

We have audited the accompanying general purpose financial statements of the Flint Area Narcotics Group as of September 30, 2003 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the management of the Flint Area Narcotics Group. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the General Fixed Assets Account Group, which should be included to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the General Fixed Assets Account Group is not known.

In our opinion, except for the effect on the financial statements of the omission as described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Flint Area Narcotics Group as of September 30, 2003 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Flint Area Narcotics Group is in the process of determining whether or not it is a separate legal or administrative entity.

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To the Board of Directors  
Flint Area Narcotics Group

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2004 on our consideration of Flint Area Narcotics Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

January 15, 2004

# Flint Area Narcotics Group

## General Fund Combined Balance Sheet September 30, 2003

### Assets

Cash (Note 2)	\$ 931,693
Grant receivable	79,626
Other assets	<u>583</u>
Total assets	<u><b>\$ 1,011,902</b></u>

### Liabilities and Fund Balances

#### Liabilities

Accounts payable	\$ 22,718
Nonadjudicated funds (Note 1)	269,765
Seed money payable to Michigan state police	20,000
Grant payable to participating units	79,626
Due to other governmental organizations	<u>45,057</u>

Total liabilities 437,166

#### Fund Balances - Unreserved

Designated for operational reserve	20,000
Designated for subsequent year's expenditures	241,297
Undesignated	<u>313,439</u>

Total fund balances 574,736

Total liabilities and fund balance **\$ 1,011,902**

# Flint Area Narcotics Group

## General Fund Combined Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended September 30, 2003

### Revenue

Federal grants	\$ 471,000
Local unit dues	163,433
Forfeiture income:	
Federal	14,994
State	385,286
Recovery from state audit (Note 5)	242,204
Interest	9,556
Other revenue	<u>1,730</u>
 Total revenue	 <u>1,288,203</u>

### Expenditures

Public safety:	
Grant expenditures - Pass-through to local units	471,000
Vehicle expenses	104,192
Building lease	60,000
Personnel and related:	
Liaison/narcotics investigator/training office	38,975
Bookkeeper - Genesee Township	66,900
Clerical	553
Forfeiture reimbursement - City of Flint	45,057
Investigative expense	17,813
Forfeiture expense	64,038
Office supplies, insurance, rental, etc.	15,500
Telecommunications	16,232
Professional fees	12,397
Capital outlay	<u>16,231</u>
 Total expenditures	 <u>928,888</u>

**Excess of Revenue Over Expenditures** 359,315

**Fund Balance - Beginning of year** 215,421

**Fund Balance - End of year** \$ 574,736

# Flint Area Narcotics Group

## General Fund Combined Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual Year Ended September 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>			
Local unit dues	\$ 203,533	\$ 163,433	\$ (40,100)
Forfeiture income:			
Federal	-	14,994	14,994
Local	40,000	385,286	345,286
Recovery from state audit (Note 5)	-	242,204	242,204
Interest	1,000	9,556	8,556
Other revenue	-	1,730	1,730
	244,533	817,203	572,670
<b>Expenditures</b>			
Public safety:			
Vehicle expenses	-	104,192	-
Building rental	-	60,000	-
Personnel and related:			
Liaison/narcotics investigator/ training office	-	38,975	-
Bookkeeper - Genesee Township	-	66,900	-
Clerical	-	553	-
Officer reimbursement - City of Flint	-	45,057	-
Investigative expense	-	17,813	-
Forfeiture expense	-	64,038	-
Office supplies, insurance, rental, etc.	-	15,500	-
Telecommunications	-	16,232	-
Professional fees	-	12,397	-
Capital outlay	-	16,231	-
	389,625	457,888	(68,263)
<b>Excess of Revenue Over (Under) Expenditures</b>	(145,092)	359,315	504,407
<b>Fund Balance - Beginning of year</b>	215,421	215,421	-
<b>Fund Balance - End of year</b>	<b>\$ 70,329</b>	<b>\$ 574,736</b>	<b>\$ 504,407</b>

# Flint Area Narcotics Group

## Notes to Combined Financial Statements September 30, 2003

### Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Flint Area Narcotics Group ("FANG") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

#### Reporting Entity

FANG was formed through an interlocal agreement by several governmental agencies within Genesee County. This multi-jurisdictional task force coordinates the efforts of officers from various local units within the County to work as one team toward the enforcement of narcotic and controlled substance laws in the state of Michigan. FANG is governed by a Board of Directors, which consists of the administrative heads, or their representatives, of the participating entities contributing law enforcement personnel to FANG, or meeting obligations of a participating entity as established in the bylaws. FANG is in the process of determining whether or not it is a separate legal or administrative entity.

The activities of FANG are funded by available grant monies, forfeiture income obtained through legal court orders, as well as dues received from the local units. In lieu of dues, the City of Flint has agreed to provide FANG with two officers and the related necessary equipment.

As required by accounting principles generally accepted in the United States of America, these financial statements present the Flint Area Narcotics Group. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

#### Fund Accounting

Currently, FANG has only one fund, the General Fund. This fund accounts for the ordinary activities of FANG. General Fund activities are financed by revenue from grants, forfeitures, local unit dues, and other sources.

#### Basis of Accounting

The General Fund utilizes the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenues are recognized when they become measurable and available. Revenues are generally considered available when they are received in cash or when earned and expected to be collected soon enough after year end to pay liabilities of the current period.

# Flint Area Narcotics Group

## Notes to Combined Financial Statements September 30, 2003

### Note 1 - Summary of Significant Accounting Policies (Continued)

- b. Noncurrent receivables are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.
- c. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- d. Normally, expenditures are not divided between years by the recording of prepaid expenses.

**Nonadjudicated Funds** - FANG seizes cash and property through its drug enforcement efforts. Until such time that the confiscated cash is legally forfeited or refunded (adjudicated), an amount representing the cash seizure is recorded as a liability. If funds are legally forfeited to FANG, the amounts are recognized as revenue. Amounts remaining at year end in the nonadjudicated funds liability represent confiscated cash that has not yet been legally forfeited to FANG or returned to defendants.

**Forfeited Property** - As of September 30, 2003, FANG had acquired legal title to various properties through forfeiture. This property is not recorded in the financial statements since no objective basis of valuation has been determined and the property does not represent a spendable financial resource. If and when that property is sold at an auction, the proceeds from the sale are recorded as revenues.

Other accounting policies are disclosed in other notes to financial statements.

### Note 2 - Deposits and Investments

FANG's deposits are included on the balance sheet as cash. These amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits (checking accounts and savings accounts)	\$ 911,693
Petty cash or cash on hand	<u>20,000</u>
Total	<u>\$ 931,693</u>

# Flint Area Narcotics Group

## Notes to Combined Financial Statements September 30, 2003

### Note 2 - Deposits and Investments (Continued)

#### Deposits

FANG's deposits are held in separate accounts in the name of the City of Burton. The deposits are reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$941,702. The federal depository insurance coverage pertains to all the deposits of the City of Burton; hence, the specific coverage pertaining to FANG's deposits, if any, is not determinable.

#### Investments

FANG is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

FANG held no investments as of September 30, 2003.

### Note 3 - Risk Management

FANG has purchased general liability insurance for claims relating to the leased facility. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. Each participating unit that provides personnel to FANG maintains responsibility for workers' compensation and general liability related to their respective employees. In addition, vehicle insurance is maintained by the State of Michigan for the leased vehicles used by FANG.

### Note 4 - Budget Information

The annual budget was prepared by the FANG section commander and adopted by the Board of Directors. Subsequent amendments (if any) are approved by the Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at September 30, 2003 has not been calculated. During the current year, the budget was not amended.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America except that expenditures that are covered by grants are budgeted net of the corresponding reimbursement.

# Flint Area Narcotics Group

## Notes to Combined Financial Statements September 30, 2003

### Note 4 - Budget Information (Continued)

The budget statement (statement of revenue, expenditures, and changes in fund balance - budget and actual - General Fund) is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement to the operating statement (statement of revenue, expenditures, and changes in fund balance - General Fund):

	General Fund	
	Total	Total
	Revenue	Expenditures
Amounts per operating statement	\$ 1,288,203	\$ 928,888
Grant revenue and expenditures budgeted net	<u>(471,000)</u>	<u>(471,000)</u>
Amounts per budget statement	<u>\$ 817,203</u>	<u>\$ 457,888</u>

The budget has been adopted on a total activity level basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as adopted by the Board is included in the general purpose financial statements by viewing the total expenditure line.

### Note 5 - Recovery from State Audit

As a result of an investigation by the Michigan Department of Treasury into the accounts and records of FANG from June 1, 1994 through February 28, 2002, the State identified funds in the amount of \$242,204, which it determined were owed to FANG by Genesee County. The State determined that Genesee County had made unauthorized distributions of the portion of FANG's forfeitures that were in the possession of the County. FANG recovered these funds in the current year.

### Note 6 - Upcoming Reporting Change

For the year beginning October 1, 2004, FANG plans to adopt GASB Statement No. 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant fund, as well as in total on the full accrual basis of accounting. Information is not available to present pro forma data that would show the effect of this future change.

January 15, 2004

Board of Directors  
Flint Area Narcotics Group  
P. O. Box 614  
Grand Blanc, MI 48439

Dear Board Members:

We have recently completed the audit of the Flint Area Narcotics Group as of and for the year ended September 30, 2003. During the past year, FANG has addressed a number of items that came up during last year's audit. Improvements have been made to certain accounting and control procedures. However, as a result of this year's audit, we offer the following observations and recommendations for your consideration, some of which were noted last year.

### Reporting Entity

Last year, we had discussed the status of FANG as a separate entity in and of itself. This continues to be an item that should be addressed. Concurrent with the separation of FANG from the County, effective October 1, 2001, a new interlocal agreement was put in place. The interlocal agreement provides for the "establishment" of FANG by the participating entities under the Urban Cooperation Act. However, the interlocal agreement states that FANG is not "a separate legal or administrative entity". This agreement also establishes that the funds of FANG be reported as a special revenue fund of the City of Burton, FANG's named fiduciary.

However, since this agreement has not yet been signed by all participating entities, and given that not all interested parties had previously seen a copy of the agreement, there remains some question as to whether FANG is operating as stipulated in the agreement.

Management and the board should work together to resolve this issue. If the intent is for FANG to be a separate entity – both legally and for administrative purposes – then the interlocal agreement should be revised. If the intent is not for FANG to be a separate entity, then FANG's designated fiduciary should consider how their annual audited financial statements would need to change for the inclusion of FANG's independently audited activity.

### **Subrecipient Monitoring**

FANG receives Byrne Formula grant funds from the Michigan Department of Community Health, as a pass through from the City of Burton. Those grant dollars are then turned over directly to participating local units, the "subgrantees", within Genesee County who are providing officers to the program. The general provisions of the grant agreement stipulate that a written contract exist for any subcontracted activity or service. In addition, general grant guidelines require subrecipients to be monitored to ascertain that the subrecipient activities are allowable under the grant and are administered in compliance with federal requirements.

For the 2002-2003 grant year, FANG did have subcontracts with the participating local units. However, very limited monitoring activities took place during the year. To comply with the federal requirements, FANG should monitor the subrecipients periodically to ensure compliance with the grant provisions. Monitoring could include obtaining and reviewing a copy of the subrecipients financial statements and single audit reports (when applicable) as well as periodic reviews of the detail supporting the amounts requested to be reimbursed for salaries and fringes under the grant.

### **GASB 34 – New Reporting Model**

The Governmental Accounting Standards Board (GASB) has issued Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, which requires a new financial statement reporting model for all governmental entities. FANG will need to implement this new model effective for its 2003-2004 fiscal year. One of the major changes under this new reporting model is that governmental entities now must report all of their capital assets as well as depreciation. As a result, FANG will need to accumulate a detailed listing of all capital assets owned, including the date purchased along with the historical cost, and will need to calculate the related accumulated depreciation, as of October 1, 2003. Since FANG has not tracked this information in the past, we strongly urge you to begin working on accumulating this data as soon as possible.

Along with the change in the treatment of capital assets, some of the additional changes in this model include the following:

- A "Management's Discussion and Analysis" (MD&A) section will be prepared by management. This discussion is intended to be a narrative overview analysis of the financial condition and operating results of FANG. The MD&A will provide an objective and easily readable analysis of FANG's financial activities based on currently known facts, decisions, or conditions. The MD&A will provide FANG with an opportunity to present both a short- and a long-term analysis of its activities.
- Full accrual financial statements will be included in FANG's financial report in addition to the fund-based statements. All assets, liabilities, revenues, and expenses of FANG are reported here, including the net book value of its fixed assets. The focus on the reporting will be the measurement of the total cost of providing services on more of a long-term perspective, rather than on the one-year/short-term time horizon that most governments are accustomed to viewing.

- o The original budget, along with the final amended budget, will need to be presented.

## **Internal Control Recommendations**

### Segregation of duties:

Segregation of duties is a primary internal control intended to prevent, or decrease the risk of, errors or irregularities. This is done by ensuring that no single individual has control over all phases of a transaction. Generally, the record keeping, authorization, custody and reconciliation processes should be segregated.

Currently, the bookkeeper has many responsibilities for the record keeping and reconciliation processes. Over the past year, FANG has changed some of its procedures to accommodate the need for additional controls. For example, our understanding is that Lt. Parsons is now receiving the bank reconciliations.

While it is impractical in a small office setting to completely segregate all duties, there may be a few additional items that can be done to improve the controls within the context of the current staffing arrangement. We'd suggest that a review of the monthly financial statements be performed by someone independent of the record keeping function. Such review should be performed periodically—monthly or quarterly—and should be documented.

## **Other Documentation Issues**

### Bookkeeper Contract

FANG currently has a person working in the bookkeeping function who is an employee of Genesee Township. Based upon our inquiries, it would appear that there is no contract between FANG and Genesee Township that stipulates the services to be provided or the reimbursement rate. While it is apparent that the reimbursement of wages is based upon time worked at FANG, a contract should be signed by all involved parties documenting the agreement. This will serve to protect the interests of both parties should a dispute ever arise.

### Distribution of excess grant dollars

At the start of every grant year, FANG provides a budget for the Byrne grant dollars that is submitted with the grant application. The budget delineates the amount each local unit is expected to be reimbursed for officer salaries and fringes. At the end of the grant year, if a local unit is under spent, FANG has an opportunity to redistribute the remaining grant dollars from those local units to the other participating governments, which are overspent. There currently does not appear to be any documentation that establishes how this redistribution should occur. While any rational method is probably acceptable, FANG may want to document the method as part of the subgrantee contracts to avoid potential disputes.

January 15, 2004

We would like to take this opportunity to thank Lt. Parsons and Cindy Meiser for their preparedness, cooperation, and assistance they provided during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report or the above comments and recommendations at your convenience. We sincerely appreciate the opportunity to serve you and look forward to continuing our relationship!

Very truly yours,

PLANTE & MORAN, PLLC

*Michelle Watterworth*

Michelle M. Watterworth

# **Flint Area Narcotics Group**

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**Federal Awards  
Supplemental Information  
September 30, 2003**

# Flint Area Narcotics Group

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## Independent Auditor's Report

To the Board of Directors  
Flint Area Narcotics Group

We have audited the general purpose financial statements of the Flint Area Narcotics Group for the year ended September 30, 2003 and have issued our report thereon dated January 15, 2004. The opinion on the general purpose financial statements is qualified due to the lack of a General Fixed Assets Account Group. Those general purpose financial statements are the responsibility of the management of the Flint Area Narcotics Group. Our responsibility was to express an opinion on those general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the Flint Area Narcotics Group taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of general purpose financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

*Plante & Moran, PLLC*

January 15, 2004

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## Report Letter on Compliance with Laws and Regulations and Internal Control - General Purpose Financial Statements

To the Board of Directors  
Flint Area Narcotics Group

We have audited the financial statements of the Flint Area Narcotics Group as of and for the year ended September 30, 2003 and have issued our report thereon dated January 15, 2004. The opinion on the general purpose financial statements is qualified due to the lack of a General Fixed Assets Account Group. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether the Flint Area Narcotics Group'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 and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the Flint Area Narcotics Group in a separate letter dated January 15, 2004.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Flint Area Narcotics Group's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over financial reporting that we have reported to the management of the Flint Area Narcotics Group in a separate letter dated January 15, 2004.

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To the Board of Directors  
Flint Area Narcotics Group

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

January 15, 2004

**Report Letter on Compliance with Laws and Regulations  
and Internal Control - Major Federal Awards**

To the Board of Directors  
Flint Area Narcotics Group

**Compliance**

We have audited the compliance of the Flint Area Narcotics Group with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended September 30, 2003. The major federal program of the Flint Area Narcotics Group is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Flint Area Narcotics Group's management. Our responsibility is to express an opinion on the Flint Area Narcotics Group's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Flint Area Narcotics Group's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Flint Area Narcotics Group's compliance with those requirements.

In our opinion, the Flint Area Narcotics Group complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2003. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item finding 03-01.

To the Board of Directors  
Flint Area Narcotics Group

### **Internal Control Over Compliance**

The management of the Flint Area Narcotics Group is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Flint Area Narcotics Group's 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.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Flint Area Narcotics Group's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item finding 03-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

January 15, 2004

# Flint Area Narcotics Group

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2003

Federal Agency/Pass-through Agency/ Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Justice:				
Passed through the Michigan Department of Community Health and the City of Burton - Byrne Formula Grant 70983-2K02	16.579	2002-DB-BX-0026	\$ 471,000	\$ 471,000
Federal equitable sharing program	16.unknown	N/A	14,994	<u>14,994</u>
Total federal awards				<b><u>\$ 485,994</u></b>

## **Flint Area Narcotics Group**

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### **Reconciliation of General Purpose Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended September 30, 2003**

Revenue from federal sources - As reported on financial statements	\$ 471,000
Add federal revenue reported as forfeiture income	<u>14,994</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 485,994</u></u>

# Flint Area Narcotics Group

## Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2003

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Flint Area Narcotics Group and is presented on the same basis of accounting as the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

### Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Byrne Formula Grant 70983-2K02	16.579	\$ 471,000

# Flint Area Narcotics Group

## Schedule of Findings and Questioned Costs Year Ended September 30, 2003

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Reportable condition(s) identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified?  Yes  No
- Reportable condition(s) identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
16.579	Byrne Formula Grant 70983-2K02

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

# Flint Area Narcotics Group

## Schedule of Findings and Questioned Costs (Continued) Year Ended September 30, 2003

### Section II - Financial Statement Audit Findings

None

### Section III - Federal Program Audit Findings

Reference Number	Findings
03-01	<p><b>Program Name</b> - Byrne Formula Grant I 6.579</p> <p><b>Pass-through Entity</b> - City of Burton</p> <p><b>Finding Type</b> - Material noncompliance/Reportable condition</p> <p><b>Criteria</b> - Grantees are required to perform subrecipient monitoring. Such monitoring includes making subrecipients aware of the award information and requirements imposed by laws, regulations, and the provisions of the contract or grant agreement. In addition, grantees are required to monitor subrecipient activities to ascertain that the subrecipient activities are allowable under the grant and are administered in compliance with federal requirements.</p> <p><b>Condition</b> - While the grantee did have subcontract agreements with all of its subrecipients, very limited monitoring of subrecipients took place during the year.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Recommendation</b> - Flint Area Narcotics Group should monitor its subrecipients to ensure subrecipient activities are allowable and administered in compliance with federal requirements.</p> <p><b>Grantee Response</b> - We will initiate more substantial monitoring of our subgrantees, as required.</p>

# Flint Area Narcotics Group

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## Summary Schedule of Prior Audit Findings Year Ended September 30, 2003

Reference Number	Findings
02-01	This finding from the September 30, 2002 audit, which indicated material noncompliance with subrecipient monitoring activities, is again included as a finding in the September 30, 2003 audit as finding number 03-01.