

SINGLE AUDIT REPORTS

POLK COUNTY, TEXAS

For the Year Ended
September 30, 2009

POLK COUNTY, TEXAS

SINGLE AUDIT REPORTS

For the Year Ended September 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	3
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	5
SCHEDULES	
<i>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</i>	8
<i>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</i>	9
<i>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</i>	13
<i>NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</i>	14



**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 31, 2009

To the Honorable County Judge and
Members of the Commissioners' Court,
Polk County, Texas:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Polk County, Texas (the "County") as of and for the year ended September 30, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 31, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, items 2007-4, 2007-5, 2008-4, and 2007-6 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-4 and 2007-5 to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the County in a separate letter dated December 31, 2009.

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and 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.

Belt Harris & Associates, LLLP

Belt Harris & Associates, LLLP
Certified Public Accountants
Houston, Texas



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM, INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133,
AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

December 31, 2009

To the Honorable County Judge and
Members of the Commissioners' Court,
Polk County, Texas:

Compliance

We have audited the compliance of Polk County, Texas (the "County") 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 each of its major federal programs for the year ended September 30, 2009. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County'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 County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Polk County, Texas, for the year ended September 30, 2009, and have issued our report thereon dated December 31, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management and 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.

Belt Harris & Associates, LLLP

Belt Harris & Associates, LLLP
Certified Public Accountants
Houston, Texas

POLK COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2009

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

None.

POLK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Polk County, Texas.
2. Significant deficiencies in internal control were disclosed by the audit of the financial statements, of which some were considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant deficiencies in internal control over major federal award programs were not disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for the County are reported.
7. The programs included as a major program are:

a. Hurricane Ike	97.036
b. Home Investments Partnerships Program	14.239
c. Community Development Block Grant	14.228
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The County did not qualify as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Matters Previously Reported

Material Weaknesses:

2007-4. ACCOUNTING RECORDS AND ADJUSTMENTS

Finding

The County reviews its accounting information and compares the information to their knowledge of historical events. From time to time, the auditor recommends adjustments to these records, as well as proposes other adjustments needed for preparing full accrual statements in compliance with GASB 34, which are only needed at year end. Although it is common within the government sector, and most private companies, to rely on their audit firm for these services, an audit firm cannot be considered part of its client's internal control by professional standards currently in effect (SAS No. 112 effective year ends on or after December 15, 2006). Since some adjustments and calculations made by the auditor may be material to the financial statements, this weakness in internal control would be classified as material.

POLK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended September 30, 2009

Recommendation

The County should continue to read its annual financial report and ensure the quality of both the document and the preparer. Changes in operation are not recommended.

Management's Response

We concur with the recommendation.

2007-5. SEGREGATION OF DUTIES

Finding

In many financial areas of the County, including administration of the County's federal award programs, the County lacks segregation of duties. Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction. The extent to which the County can segregate duties is limited based on the number of personnel, their skill set and work load, and the organizational structure of the County. There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered.

Recommendation

The County should continue to re-evaluate its segregation of duties and, when possible, assign tasks to strengthen controls.

Management's Response

We concur with the recommendation.

Significant Deficiencies:

2008-4. SHARED CASH DRAWERS

Finding

Not all County employees that receive cash payments have their own cash drawer.

Recommendation

The County should consider developing a process where each employee will be responsible for their own cash drawer.

Management's Response

We concur with the recommendation.

POLK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended September 30, 2009

2007-6. INTERNAL CONTROL ASSESSMENT, COMMUNICATION, AND MONITORING

Finding

Like many local governments of its size and complexity, the County does not have a formal process for assessing risk associated with key controls related to its financial operations and fraud. In addition, while a number of processes are used to communicate internal controls (such as formal actions taken by the Commissioners' Court, policies and procedures, memos, emails, website and controlling legislation), a single source, such as a complete and up to date policy and procedures manual, does not exist. Likewise, the entity does not have a formal process for monitoring its internal control.

Recommendation

The County should continue to monitor the need for more formally established processes to assess risk, communicate controls, and monitor controls. The County should consider having an annual workshop with an audit committee designated by the Commissioners' Court and key personnel to specifically discuss risk and key controls to mitigate those risks. The County's assessment of its risk and evaluation of the effectiveness of controls can then be utilized to determine the sufficiency of the level of documentation.

Management's Response

We concur with the recommendation.

POLK COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended September 30, 2009

C. FINDINGS – FEDERAL AWARDS

None.

POLK COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2009

Department/Pass through Agency/Program Name	Program/Grant/ Project Number	CFDA Number	Expenditures
BUREAU OF JUSTICE ASSISTANCE			
Pass-through Texas Department of Justice			
Community Awareness Project	2009-SB-B9-0685	16.804	\$ 36,116
Pass-through Texas Department of Public Safety			
State Criminal Alien Assistance Program	2008-F2554-TX-AP	16.606	7,772
	Total Bureau of Justice Assistance		<u>43,888</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass through Deep East Texas Council of Governments			
Title IIIB		93.044	14,903
Title IIIC1 & Title IIIC2		93.045	133,745
Pass through Texas Department of Health			
Title XX		93.667	105,377
Pass through Texas Department of Family and Protective Services			
Title IV-E	23379452	93.658	2,723
Pass through Texas Administration for Children and Families			
Child Support Enforcement		93.563	45,400
	Total Department of Health and Human Services		<u>302,148</u>
DEPARTMENT OF INTERIOR			
Direct Program:			
Payments in Lieu of Taxes		15.226	<u>45,234</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass-through Texas Department of Housing and Community Affairs			
Home Investment Partnerships Program	1000762	14.239	674,838
Pass-through Texas Department of Rural Affairs			
Memorial Point Sewer Project	728340	14.228	38,753
Community Development Block Grant	DRS 06 0071	14.228	235,022
Community Development Block Grant	727147	14.228	175,274
	Total Department of Housing and Urban Development		<u>1,123,887</u>
DEPARTMENT OF HOMELAND SECURITY			
Pass through Texas Department of Public Safety's Division of Emergency Management			
Disaster Grants - Public Assistance	FEMA 1791 DR TX	97.036	6,907,552
Pass through the Texas Engineering Extension Services			
2004 State Homeland Security Program	2004 SHSP-48373	97.004	27,940
Pass through Texas Department of Public Safety's Division of Emergency Management			
Emergency Food and Shelter Program		97.024	11,550
Pass through Texas Department of Public Safety's Division of Emergency Management			
Emergency Management Performance Grant	08TX-EMPG-0441	97.042	43,764
	Total Department of Homeland Security		<u>6,990,806</u>
	TOTAL PROGRAMS		<u>\$ 8,505,963</u>

POLK COUNTY, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2009

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Polk County, Texas and is presented on the accrual basis of accounting. 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 basic financial statements.