

Isabella County, Michigan

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

September 30, 2013

Isabella County, Michigan

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Commissioners
Isabella County, Michigan
Mt. Pleasant, Michigan

Report on Compliance for Each Major Federal Program

We have audited Isabella County, Michigan's (the County) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2013. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The County's basic financial statements include the operations of the Isabella County Transportation Commission and the Isabella County Road Commission, discretely presented component units, which received \$319,400 and \$1,363,006, respectively, in federal awards, which are not included in the schedule during the year ended September 30, 2013. Our audit, described below, did not include the operations of Isabella County Transportation Commission because the component unit engaged us to perform a separate audit in accordance with OMB Circular A-133. The Isabella County Road Commission did not have a single audit required because the Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended September 30, 2013, the Federal aid received and expended by the Road Commission was \$1,280,820 for contracted projects and \$82,726 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 Isabella County, Michigan, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated March 28, 2014, which contained unmodified opinions on those financial statements. We did not audit the financial statements of the Isabella County Road Commission and the Isabella County Medical Care Facility. The Road Commission represents 55%, 63%, and 25%, respectively, of the total assets, net position, and revenues of the component units, and the Medical Care Facility represents 16%, 13%, and 41%, respectively, of the total assets, net position, and revenues of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Road Commission and Medical Care Facility, are based solely on the reports of the other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 28, 2014

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Current Year	
			Revenues	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through Michigan State Housing Development Authority Community Development Block Grant	14.228	MSC-2010-5824-HOA	\$ 120,671	\$ 120,671
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Michigan Department of Human Services Child Support Enforcement (Title IV-D)	93.563			
Cooperative Reimbursement ^{(a)(c)}				
Friend of the Court		CS/FOC-13-37001	383,396	383,396
Prosecuting Attorney		CS/PA-13-37002	23,283	23,283
Title IV-D Incentive Payments ^{(b)(c)}				
2012 Regular		N/A	76,958	76,958
			<u>483,637</u>	<u>483,637</u>
Foster Care (Title IV-E)	93.658	PROFC-11-37001	19,446	19,446
Passed through Region VII Area Agency on Aging				
Special Programs for the Aging				
Title III, Part D	93.043	N/A	3,100	3,100
Title III, Part B ^(d)	93.044	N/A		
Case Coordination and Support			28,593	28,593
Personal Care			4,646	4,646
Homemaker			7,333	7,333
			<u>40,572</u>	<u>40,572</u>

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Current Year	
			Revenues	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONCLUDED				
Passed through Region VII Area Agency on Aging - concluded				
Special Programs for the Aging - concluded				
Title III, Part C-1 ^(d)	93.045	N/A		
Congregate Meals			\$ 65,978	\$ 65,978
Home Delivered Meals			84,855	84,855
			<u>150,833</u>	<u>150,833</u>
Title III, Part E	93.052	N/A		
Caregiver Training			14,125	14,125
Supplemental Funds			2,211	2,211
Kinship Care Funds			1,033	1,033
Food for Kinship			500	500
			<u>17,869</u>	<u>17,869</u>
Nutrition Services Incentive Program (NSIP) ^(d)	93.053	N/A		
Congregate Meals			22,407	22,407
Home Delivered Meals			44,180	44,180
			<u>66,587</u>	<u>66,587</u>
Medical Assistance Program	93.778	N/A	<u>18,603</u>	<u>18,603</u>
Total passed through Region VII Area Agency on Aging			<u>297,564</u>	<u>297,564</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			800,647	800,647

Isabella County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year Ended September 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Current Year	
			Revenues	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Michigan Department of Natural Resources 2010 Marine Safety Grant	97.012	N/A	\$ 4,817	\$ 4,817
Passed through Michigan State Police 2012 Emergency Management Performance Grant ^(c)	97.042	EMW-2013-EP-00026-S01	9,791	9,791
Passed through West Michigan Shoreline Regional Development Commission				
2009 Homeland Security Grant	97.067	N/A	(38)	(38)
2010 Homeland Security Grant			28,072	28,072
2011 Homeland Security Grant			10,583	10,583
			<u>38,617</u>	<u>38,617</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>53,225</u>	<u>53,225</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 974,543</u>	<u>\$ 974,543</u>

Isabella County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2013

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Isabella County, Michigan, and is presented on the modified 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 Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note C below.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursements of these contracts are passed through the State Department of Human Services (DHS). The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of Title IV-D eligible expenditures for the applicable grants.
- (b) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues and are 100% Federal.
- (c) Denotes program tested as a "major program".
- (d) Program considered a cluster by the U.S. Department of Health and Human Services.

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the federal revenues reported in the September 30, 2013 basic financial statements to the expenditures of the County administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Federal/ State Revenue</u>	<u>Less State/Local Revenue</u>	<u>Federal Award Expenditures</u>
PRIMARY GOVERNMENT			
GENERAL FUND			
Homeland Security	\$ 48,408	\$ -	\$ 48,408
Prosecutor - CRP	23,283	-	23,283
Prosecutor - FIA reimbursement	19,446	-	19,446
Marine safety grant	4,817	-	4,817
Other Programs	<u>2,709,707</u>	<u>(2,709,707)</u>	<u>-0-</u>
TOTAL GENERAL FUND	2,805,661	(2,709,707)	95,954
CDBG HOUSING ASSISTANCE GRANT	120,671	-	120,671
TRIBAL CONTRIBUTION	104,457	(104,457)	-0-
COMMISSION ON AGING ACTIVITIES	1,372,233	(1,074,669)	297,564
NONMAJOR SPECIAL REVENUE FUNDS			
Friend of the Court	460,354	-	460,354
Other	<u>1,293,379</u>	<u>(1,293,379)</u>	<u>-0-</u>
TOTAL NONMAJOR SPECIAL REVENUE FUNDS	<u>1,753,733</u>	<u>(1,293,379)</u>	<u>460,354</u>
TOTAL	<u>\$ 6,156,755</u>	<u>\$ (5,182,212)</u>	<u>\$ 974,543</u>

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

Board of Commissioners
Isabella County, Michigan
Mt. Pleasant, Michigan

We have audited, in accordance with the 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, 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 the Isabella County, Michigan (the County), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 28, 2014. Our report includes a reference to other auditors who audited the financial statements of the Isabella County Medical Care Facility and the Isabella County Road Commission, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 a 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2009-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and is described in the accompanying schedule of findings and questioned costs as item 2013-1.

Isabella County, Michigan's Responses to Findings

The County's responses to the findings identified in our audit are noted in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 28, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? X Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
97.042	Emergency Management Performance Grant
93.563	Child Support Enforcement (Title IV-D)

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

Auditee qualified as low-risk auditee? Yes X No

Section II - Financial Statement Findings

2009-1 REPEAT AUDIT COMMENTS

Condition: During our review of internal controls at the Sheriff's Department, the Trial Court, Drain Office, Recycling Center, and Register of Deeds, we noted several opportunities to strengthen internal control and segregate duties in the cash receipting and disbursement procedures. These issues were noted and reported in our prior year audit comments. Specifically, we noted:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2013

Section II - Financial Statement Findings - Continued

2009-1 REPEAT AUDIT COMMENTS - CONTINUED

Sheriff's Department:

- a. The cashiers do not maintain separate cash drawers.
- b. There is no log maintained of receipts received in the mail.
- c. Any of the office staff, clerks, and corrections officers has the capability to receipt money and void receipts. Additionally, all of the clerks and corrections officers are authorized check signers for the Inmate Trust Account.
- d. The disbursements made from the Inmate Trust account are not reviewed prior to checks being prepared.
- e. The Department does not reconcile amounts due to individual inmates per the computer system to amounts held in the related bank account.

Trial Court:

- a. There is no log maintained of receipts received in the mail.
- b. The employee who reconciles the bank account is not independent of the cash receipting and disbursement process.

Drain Office:

- a. The cashiers do not maintain separate cash drawers.
- b. All department employees are authorized to receipt money.

Recycling Center:

- a. Administrative assistant opens the mail, performs cash receipting, and has access to the electronic records.

Register of Deeds:

- a. The cashiers do not maintain separate cash drawers.

Criteria: The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e. receipts, disbursements, etc.). The controls applicable to the Trial Court are required by the State of Michigan.

Cause: Management believes that the recommended controls would be too costly or cumbersome to implement.

Effect: The Sheriff's Department, Trial Court, Drain Office, Recycling Center, and Register of Deeds are susceptible to fraudulent transactions as the internal controls and segregation of duties in these areas is inadequate. The Trial Court is also not in compliance with applicable sections of the Michigan Court Administration Reference Guide.

Recommendation: We recommend that the departments evaluate all aspects of their accounting functions and consider taking action to correct the above deficiencies.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS- CONCLUDED

Year Ended September 30, 2013

Section II - Financial Statement Findings - Concluded

2009-1 REPEAT AUDIT COMMENTS - CONCLUDED

Corrective Action Response: Management has reviewed the recommendations of the auditors and will work with the departments in evaluating where cash controls can be strengthened beginning with increasing the amount of cash drawers where feasible. Where budget restrictions and staffing levels limit the segregation of duties, management will look to increase control through properly maintained cash receipt logs and retention of support documentation. It is the intention of management to take the necessary steps to communicate to all cash handling employees the County's commitment to maintaining an environment of strong and cost effective internal controls. Management recognizes that an increased risk of fraud exists due to these deficiencies.

2013-1 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the County's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund, and five (5) special revenue funds. A similar issue was noted and reported in our prior year audit comments.

Criteria: The Uniform Budgeting and Accounting Act requires the County to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The County did not effectively monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

Effect: The County adopted the budget for the General Fund at the department level and the Special Revenue funds at the total expenditure level. Having unfavorable budget variances as described above, the County is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the County monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

Corrective Action Response: The new Administrator/Controller and the Director of Accounting Services are committed to updating the financial reporting and budgeting process. Working closely with the department managers the administration team will be implementing new financial management and control procedures which will assist in monitoring and projecting revenues and expenditures. The goal of the administration team will be to eliminate unfavorable budget variances.

Section III - Federal Award Findings and Questioned Costs

None noted.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2013

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

2009-1 REPEAT AUDIT COMMENTS

Condition: During our review of internal controls at the Sheriff's Department, the Trial Court, Drain Office, Recycling Center, and the Register of Deeds, we noted several opportunities to strengthen internal control and segregate duties in the cash receipting and disbursement procedures.

Resolution: While some changes were made to incorporate the recommended internal controls at the Sheriff's Department and Trial Court, there are still several areas where no changes were made. We do not consider this issue to be resolved.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2010-2 OUTSTANDING CHECKS NEED TO BE ESCHEATED

Condition: During our review of the General Fund, Sheriff's Department, Flex Spending, and Inmate Trust bank accounts, we noted that several of the outstanding checks were old and still outstanding.

Resolution: During the current year, we did not note any old outstanding checks. We consider this issue to be resolved.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None noted.