

HAMILTON COUNTY, TEXAS
STATE SINGLE AUDIT REPORT
September 30, 2011

HAMILTON COUNTY, TEXAS
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Independent Auditors' 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*

To the Honorable County Judge Mills
and Members of the Commissioners Court
Hamilton County, Texas

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hamilton County, Texas (the "County"), as of and for the year ended September 30, 2011, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 29, 2012. 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (Finding 2011-01). 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.

To the Honorable County Judge Mills
and Members of the Commissioners Court
Hamilton County, Texas
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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*.

This report is intended solely for the information and use of the Hamilton County, Texas, the County Judge, Commissioners Court, management, state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
May 29, 2012

Independent Auditors' Report on Compliance with the Requirements that Could have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with the State of Texas Uniform Grant Management Standards Chapter IV *State of Texas Single Audit Circular A-133*

To the Honorable County Judge Mills
and Members of the Commissioners Court
Hamilton County, Texas

Compliance

We have audited the compliance of Hamilton County, Texas (the "County") with the types of compliance requirements described in the *State of Texas Single Audit Circular* that could have a direct and material effect on each of its major state programs for the year ended September 30, 2011. The County's major state 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 state 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 *State of Texas Single Audit Circular*. Those standards and *State of Texas Single Audit Circular* 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 state 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. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended September 30, 2011.

Internal Control over Compliance

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 state 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 state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State of Texas Uniform Grant Management Standards Chapter IV *State of Texas Single Audit Circular*, 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.

To the Honorable County Judge Mills
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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 state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 state program will not be prevented, or detected and corrected, on a timely basis.

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.

Schedule of Expenditures of State Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of and for the year ended September 30, 2011, and have issued our report thereon dated May 29, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by *State of Texas Single Audit Circular*, and is not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Hamilton County, Texas, the County Judge, Commissioners Court, management, state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Whitley Penn LLP

Houston, Texas
May 29, 2012

SCHEDULE OF EXPENDITURES OF STATE AWARDS

HAMILTON COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

<u>(1) State Agency/Program Title</u>	<u>Contract Number</u>	<u>Expenditures</u>
Texas Historic Commission		
Texas Historic Courthouse Preservation Program-Phase I	CTH-Hamilton-05-2008	\$ 119,910
Texas Historic Courthouse Preservation Program-Phase II	CTH-Hamilton-06-2010	2,282,871
Total Texas Historic Commission		<u>2,402,781</u>
Total State Expenditures		<u><u>\$ 2,402,781</u></u>

The accompanying notes are an integral part of this schedule.

HAMILTON COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended September 30, 2011

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of state awards (the “schedule”) includes the state grant activity of the Hamilton County, Texas (the “County”) under programs of the state government for the year ended September 30, 2011. The information in this schedule is presented in accordance with the requirements of the *State of Texas Single Audit Circular*. Because the schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net assets or cash flows of the County.

Note 2 - Summary of Significant Accounting Policies

In accordance with generally accepted accounting principles, the County accounts for all awards under state programs on an accrual basis of accounting and, accordingly, reflects all significant receivables, payables, and other liabilities.

State grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When such funds are advanced to the County, they are recorded as deferred revenues until earned. Otherwise, state grant funds are received on a reimbursement basis from the respective state program agencies. Generally, unused balances are returned to the grantor at the close of specified project periods.

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in *State of Texas Single Audit Circular* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

HAMILTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2011

Section I - Summary of Auditors' Results

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?	2011-01
Noncompliance material to the financial statements noted?	None

STATE AWARDS

Internal control over major programs:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported

Type of auditors' report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with <i>State of Texas Single Audit Circular</i>	No
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Identification of major programs:

<u>Contract Number(s)</u>	<u>Name of State Program or Cluster</u>
CTH-Hamilton-05-2008	Texas Historic Commission:
CTH-Hamilton-06-2011	Texas Historic Courthouse Preservation Program -Phase I
	Texas Historic Courthouse Preservation Program -Phase II

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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HAMILTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2011

Section II - Financial Statement Findings

Finding #2011-01 – Adjusting Journal Entries to County General Ledger

Criteria

Journal entries should be approved by someone other than the creator in order to reduce the risk that an improper entry will be recorded in the general ledger.

Condition

Journal entries prepared by the County Auditor are not reviewed by anyone prior to posting in the general ledger.

Context

This matter was determined throughout the external audit and reporting process.

Effect

Increased risk of financial misstatements due, primarily to erroneous posting.

Cause

As a result of the limited staffing inherently available to smaller organizations such as the County, the lack of staff proficient in governmental accounting and reporting is the cause of this deficiency.

Recommendation

The County should consider some method of review or approval of adjustments to made to financial statements. This could be accomplished with either internal or external resources.

HAMILTON COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the Year Ended September 30, 2011

Section III - Federal and State Award Findings and Questioned Costs

The audit disclosed no findings to be reported.

Section IV - Status of Prior Year Findings and Questioned Costs

Finding #2010-01-Lack of Internal Controls Over Reporting

Condition

As is common within the system of internal control of most small organizations, the accounting function of the County does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the County has not established internal controls over the preparation of its financial statements.

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements on both the fund basis and the government-wide basis of accounting. In addition, the County's Management relies on the external auditor to prepare and post adjustments related to the presentation of the long-term capital assets and liabilities in the government-wide financial statements. Therefore, Management's reliance upon the auditor to detect and make these necessary adjustments is considered to be a material weakness in internal control. This condition is considered to be a material weakness of the County's system of internal control over financial reporting.

Status

During the process of closing out the financial records for the year ended September 30, 2011, the County Auditor reduced the adjustments proposed by the external auditor to primarily adjustments related to the presentation of government wide financial statements.

HAMILTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2011

Section V. - CORRECTIVE ACTION PLAN

Finding #2011-01- Adjusting Journal Entries to County General Ledger

Responsible Person(s): Marliessa Clark, CPA

Corrective Action Plan: The auditor will train a competent person in another department to review adjusting journal entries.

Estimated Completion Date: 2/28/2013