

HAMILTON COUNTY, TEXAS
STATE SINGLE AUDIT REPORT
September 30, 2012

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, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 10, 2013. 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

Management of the County is responsible for establishing and maintaining effective 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 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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies in 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weakness. [2012-02]

A *significant deficiency* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and questions costs to be significant deficiencies. [2011-01, 2012-01, and 2012-03]

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings questioned costs as items. [2012-04]

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 responses and, accordingly, we express no opinion on them.

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, slightly slanted style.

Houston, Texas
October 10, 2013

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*

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 its major state program for the year ended September 30, 2012. The County's major state program is 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 the *State of Texas Single Audit Circular*. Those standards and the *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, 2012.

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.

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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. However, we identified certain deficiencies as described in the accompanying schedule of findings and questioned costs as items.

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, 2012, and have issued our report thereon dated October 10, 2013, 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 state 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.

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

Houston, Texas
October 10, 2013

SCHEDULE OF EXPENDITURES OF STATE AWARDS

HAMILTON COUNTY, TEXAS
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>(1) State Agency/Program Title</u>	<u>Contract Number</u>	<u>Expenditures</u>
Texas Historical Commission		
Texas Historic Preservation Program-Phase II	CTH-Hamilton-06-2010	\$ 1,085,570
Total Texas Historical Commission		<u>\$ 1,085,570</u>
Texas Indigent Defense Commission		
Indigent Defense Grant		\$ 9,478
Total Texas Indigent Defense Commission		<u>\$ 9,478</u>
Total State Expenditures		<u>\$ 1,085,570</u>

HAMILTON COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended September 30, 2012

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, 2012. 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, 2012

Section I - Summary of Auditors' Results

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
a. Material weakness(es) identified?	2012-02
b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?	2011-01, 2012-01, 2012-03, and 2012-04
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>	Yes
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Identification of major programs:

<u>Contract Number(s)</u>	<u>Name of State Program or Cluster</u>
CTH-Hamilton-06-2010	Texas Historic Commission: 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, 2012

Section II - Financial Statement Findings

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

Criteria: Journal entries should be reviewed by a knowledgeable individual to determine that they are reasonable, accurate, properly supported, and properly recorded in the general ledger.

Condition: During our audit of journal entries, we noted that the County does not require journal entries that are manually created and entered to be reviewed by an appropriate individual.

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

Cause: Individuals within the County have been given the authority to create and record journal entries without a review process in place.

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

Finding #2012-01 – Bank Reconciliations

Criteria: The bank reconciliation process should be performed or reviewed by an individual or individuals separate from those approved to issue checks or perform bank transfers.

Condition: The County Treasurer's department is currently responsible for performing the bank reconciliations and issuing disbursements. This department also has the authority to perform bank transfers.

Effect: Increased fraud risk due to a weakness in the oversight of the County Treasurer's actions.

Cause: As a result of the limited staffing inherently available to smaller organizations there is an increased difficulty of properly segregating key duties.

Recommendation: The County should consider relocating the bank reconciliation process to another department, such as the County Auditor's department, or at a minimum, have the County Auditor's department review the bank reconciliations upon completion.

Finding #2012-02 – External Financial Reporting

Criteria: The County's annual financial report is the responsibility of County Management. As such, the County should have in place internal controls to ensure the financial statements are able to be prepared from the records of the County.

During the course of performing our audit, it was necessary for us to propose a number of adjustments to the books and records of the County in order for the County's financial statements (on both a fund basis and the government-wide basis) to conform to generally accepted accounting principles. Management's reliance upon the auditor to detect and make these necessary adjustments is considered to be a material weakness in internal control over financial reporting.

HAMILTON COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

For the Year Ended September 30, 2012

Effect: This weakness in internal controls results in an increase in the risk that the County's financial statements will be prepared incorrectly.

Cause: As a result of the limited staffing inherently available to smaller organizations there is increased difficulty in refining key responsibilities.

Recommendation: The County should design internal controls in a way that allows them to prepare their financials and ensure that they include all the necessary entries.

Finding #2012-03 – Timeliness of Financial Reporting

Criteria: Internal controls should be in place to allow for an organization to issue financial statements within a reasonable period of time after the fiscal year has ended.

Condition: During the previous fiscal year, the County Auditor's Office had not closed out the records and was not prepared for an external audit until 11 months after year end.

Effect: The effects of not being prepared to issue financial statements within a reasonable amount of time after year end is a lack of usefulness or relevance of the financial statements due to the elapse of time and an increased risk of fraudulent activities or errors occurring and not being detected on a timely basis.

Cause: The County experienced turnover in the County Auditor position which resulted in a delay in the audit.

Recommendation: The County should design internal controls in a manner which allows them to prepare for an audit to be conducted within a reasonable amount of time after the end of the fiscal year. This would include standard operating procedures for monthly and year-end closing procedures and timelines.

Section III – State Awards Findings and Questioned Costs

Finding #2012-04 – Non-Compliance with State Competitive Bidding Requirement

Criteria: Internal controls should be in place to assure that state competitive bidding requirements are followed and that the County is in compliance.

Condition: The County failed to comply with state bidding requirements for vendors paid in excess of \$50,000.

Effect: The County is not in compliance with state bidding laws.

Cause: The County discontinued use of its construction management company and began paying its vendors directly. This resulted in the County directly funding vendors amounts in excess of that statutorily required to be bid.

Recommendation: The County should develop and implement controls that minimize the risk of non-compliance with state bidding requirements. Procedures should include monitoring and review of controls over requirements and should be ongoing.

Questioned Costs: None.

HAMILTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2012

Section IV - Status of Prior Year Findings and Questioned Costs

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

Status: See current year findings.

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: February 2014

Finding #2012-01- Bank Reconciliations

Responsible Person(s): Marliessa Clark, CPA

Corrective Action Plan: The County Auditor will begin reviewing bank reconciliations once they have been prepared by the County Treasurer.

Estimated Completion Date: October 2013

Finding #2012-02 – External Financial Reporting

Responsible Person(s): Marliessa Clark, CPA

Corrective Action Plan: The County will work towards implementing procedures that will help ensure that the financials are complete prior to the audit.

Estimated Completion Date: January 2014

Finding #2012-03 – Timeliness of Financial Reporting

Responsible Person(s): Marliessa Clark, CPA

Corrective Action Plan: The County will develop procedures to ensure that they obtain their audit within a reasonable amount of time after the close of the fiscal year.

Estimated Completion Date: October 2013

HAMILTON COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2012

Finding #2012-04 – Non-Compliance with State Competitive Bidding Requirement

Responsible Person(s): Marliessa Clark, CPA

Corrective Action Plan: The County will bid all vendors in which it expends over \$50,000 in funds.

Estimated Completion Date: October 2013