

**HARNETT COUNTY
LILLINGTON, NORTH CAROLINA**

COMPLIANCE LETTERS

FOR THE YEAR ENDED JUNE 30, 2011

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

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 Board of Commissioners
Harnett County, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harnett County as of and for the year ended June 30, 2011, which collectively comprise Harnett County's basic financial statements, and have issued our report thereon dated October 12, 2011. 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 Harnett County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Harnett 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 Harnett County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harnett 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 was not designed to identify all deficiencies in internal control over financial reporting that might be 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 Cost, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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, 2011- 01, described in the accompanying Schedule of Findings and Questioned Cost to be a material weakness.

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act

Independent Auditors' Report

To the Board of Commissioners
Harnett County, North Carolina

Compliance

We have audited Harnett County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Harnett County's major Federal programs for the year ended June 30, 2011. Harnett County's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Harnett County's management. Our responsibility is to express an opinion on Harnett 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 Harnett 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 Harnett County's compliance with those requirements.

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

This report is intended for the information and use of management, others within the organization, members of the Board of Commissioners, federal and 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
November 21, 2011

Internal Control Over Compliance

Management of Harnett 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 Harnett County's internal control over compliance with the requirements that could have a direct and material effect on a major State 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 applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, 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 Harnett 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, non-compliance 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 combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material non-compliance with a type of compliance requirement of a Federal 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 was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Harnett County, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise Harnett County's basic financial statements, and have issued our report thereon dated October 12, 2011 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Harnett County's basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other 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 Schedule of Expenditure of Federal and State Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

HARNETT COUNTY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

1. Summary of Auditors' Results

- A. An unqualified opinion was issued on the financial statements of Harnett County, North Carolina.
- B. Our audit of the basic financial statements disclosed material weaknesses in internal controls.
- C. Our audit of the basic financial statements disclosed no significant deficiencies in internal controls.
- D. Our audit of the basic financial statements disclosed instances of non-compliance with laws, regulations, and the provisions of contracts and grant agreements that are material to the basic financial statements.
- E. Our audit of compliance with the types of compliance requirements applicable to the County's major programs disclosed no material weaknesses or significant deficiencies in internal controls over major programs.
- F. An unqualified opinion was issued on Harnett County, North Carolina's compliance with the types of compliance requirements applicable to its major federal programs.
- G. An unqualified opinion was issued on Harnett County, North Carolina's compliance with the types of compliance requirements applicable to its major State programs.
- H. Our audit disclosed no audit findings which related to federal awards.
- I. Our audit disclosed no audit findings which related to State awards.
- J. Major federal programs for the Harnett County, North Carolina for the fiscal year ended June 30, 2011 are:

<u>Program Name</u>	<u>CFDA#</u>
Medicaid Cluster	93.778
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557
Child Care Development Fund Cluster	93.575, 93.596, 93.713
State Children's Health Insurance Program - NC Health Choice	93.767
South Central Wastewater	10.760
Drinking Water State Revolving Fund	66.468

HARNETT COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

2. Findings Related to the Audit of the Basic Financial Statements

Finding 2011-01 Budget Violation

Criteria: North Carolina General Statutes require that the County have policies and procedures in place to monitor budgetary compliance throughout the year. Management should have a control system in place to reduce the likelihood that violations of General Statutes occur and go undetected.

Condition: In the current year, there was a violation of the General Statutes regarding expenditures exceeding appropriations.

Effect: The County was in violation of North Carolina General Statutes.

Cause: The County expended more than had been budgeted in the budget ordinance and a budget amendment had not been made for this item.

Recommendation: Implement stringent budgetary monitoring controls to prevent expenditures exceeding appropriations. Management should make sure that all items are booked at year-end and that the proper budget amendments have been made for those purchases.

Contact Person: Sylvia Blinson, Finance Officer

Views of Responsible Officials and Planned Corrective Actions: We agree with the findings for this particular fund. The County does keep post closure funds on hand to cover needs that may arise after a landfill cell is completed. This year, we had extensive work to correct a post closure problem with the leachates. This was considered an emergency to repair for public health and safety. There were sufficient funds on hand; however, we failed to update the budget prior to the year end. We will monitor this fund more closely and continue to monitor the other funds that did not have over-runs of their budgets.

Proposed Completion Date: The solid waste staff and finance staff will monitor the budget monthly instead of quarterly effective September 30, 2011.

HARNETT COUNTY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

2010-01 – Corrected

2010-02 – Corrected

2010-03 – Corrected

2010-04 – Corrected

HARNETT COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2011

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant I.D. Number	Expenditures	
			Federal	State
<u>U.S. Department of Labor</u>				
Department of Labor/Employment and Training				
Passed-through Central Carolina Community				
College Welfare Investment Act				
	17.259	09-2040-02	345,168	-
<u>Total U.S. Department of Labor</u>			<u>345,168</u>	<u>-</u>
<u>U.S. Department of Health and Human Services</u>				
Division of Aging and Adult Services				
Passed-Through Mid-Carolina Council of Governments:				
Special Programs for the Aging Title III Cluster:				
		97C-000-0563/ 16-701, 20-		
		701		
Senior Center Operations and Outreach	93.044		9,381	-
Nutrition Services	93.045		238,511	42,090
Nutrition Services Incentive Program	93.053		31,572	5,571
Retired Senior and Volunteer Program	93.044	20-701	5,603	-
Home and Community Care Block Grant	93.044	20.701	215,533	-
Total Aging Cluster			<u>500,600</u>	<u>47,662</u>
Special Programs for the Aging:				
Family Caregiver Support Program	93.052	17-701	25,500	3,000
Medical Transportation General	93.633	16-701	9,106	9,864
Medical Transportation	93.633	16-701	51,993	56,325
Passed-Through Corporation for National Service:				
National Senior Service	94.002	09SRSNC006	42,028	-
<u>Total Division of Aging and Adult Services</u>			<u>629,226</u>	<u>116,851</u>
Division of Administration for Children & Families				
Passed-Through the N.C. Department of Health & Human Services:				
Child Care Development Fund Cluster:				
Division of Social Services				
Child Care Development Fund - Administration	93.596		208,104	-
Division of Child Development				
Child Care Development Fund - Discretionary	93.575	607-16-003	1,513,613	-
Child Care and Development Fund - Mandatory	93.596		629,175	-
Child Care and Development Fund - Match	93.596		504,960	273,436
ARRA - Child Care and Development Fund	93.713		73,846	-
Total Child Care Fund Cluster			<u>2,929,698</u>	<u>273,436</u>
Social Services Block Grant	93.667		17,164	-
State Appropriations			-	379,165
Smart Start			-	449,053
TANF - Maintenance of Effort			-	242,179
<u>Total Subsidized Child Care Cluster</u>			<u>2,946,862</u>	<u>1,343,833</u>

HARNETT COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2011

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant I.D. Number	Expenditures	
			Federal	State
<u>N.C. Department of Transportation</u>				
Passed-Through the N.C. Department of Transportation				
Division of Engineering				
Rural Operating Assistance Program (ROAP):				
Work First Transportation Grant		DOT-16CL	-	37,088
Rural General Public Program (RGP)		3622821.1.1	-	133,138
Elderly and Disabled Transportation				
Assistance Program (EDTAP)		10-CT-040	-	102,108
Public Transportation Division				
Transportation Facility Design		36227.5.1.1/03-SF020	-	81,419
<u>Total N.C. Department of Transportation</u>			-	<u>353,753</u>
<u>N.C. Department of Environmental and Natural Resources</u>				
Division of Parks and Recreation				
Barbecue Creek Park		PARTF-2008-558-1274	-	78,185
Division of Water Quality				
Erwin Waste Water Improvements		CWMTF02-58-85	-	200,000
Division of Clean Water Management Trust Fund				
South Central Waste Water		CWMTF2006A-512	-	200,000
Division of Purchases and Services				
AMPI		2792	-	21,481
<u>Total N.C. Department of Environmental and Natural Resources</u>			-	<u>499,665</u>
TOTAL STATE AWARD EXPENDITURES			-	<u>3,332,037</u>
TOTAL AWARD EXPENDITURES			\$ 101,849,988	\$ 37,458,083

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

Basis of Presentation

The Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of Harnett County 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 Non-Profit Organizations and the State Single Audit Implementation Act. Therefore, some amounts presented in schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the basic financial statements. However, due to the County's involvement in determining eligibility, they are considered federal awards to the County and are considered federal awards to the County and are included on this schedule.

The following are clustered by the NC Department of Health and Human Services and are treated separately for State audit requirement purposes: Subsidized Child Care, and Foster Care and Adoption

Loans Outstanding:

Harnett County had the following loan balances outstanding at June 30, 2011. Draws on these loans that occurred during the fiscal year are included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Outstanding</u>
Drinking Water State Revolving Fund	66.468	\$ 3,354,250

HARNETT COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2011

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant I.D. Number	Expenditures	
			Federal	State
Centers for Medicare and Medicaid Services				
Passed-Through the N.C. Department of Health and Human Services:				
Division of Medical Assistance:				
Direct Benefit Payments:				
Medical Assistance Program	93.778		79,678,692	31,594,267
Division of Social Services				
Administration:				
Medical Assistance Program	93.778	5-1105NCPMAP	1,351,251	84,113
Adolescent Parenting Program	93.778	02220-11	16,742	43,051
Total Medicaid Cluster			81,046,685	31,721,431
State Children's Insurance Program- NC Health Choice	93.767		48,891	3,146
Total for Center for Medicare and Medicaid Services			81,095,576	31,724,577
Division of Public Health				
Immunization Cluster				
Immunization Action Plan	93.268		38,011	-
Total Immunization Cluster			38,011	-
Family Planning Title X	93.218		52,339	4,944
Risk Reduction/Health Promotion	93.991		13,657	-
Chronic Disease/Health Promotion	93.283		1,292	5,161
Maternal and Child Health Services Block Grant:			-	
Women's Preventive Health (Family Planning)	93.994		27,071	20,305
Maternal Health	93.994		6,458	4,844
Child Health (HHS-MCH Block Grant)	93.994		67,039	50,285
Child Health - CFPT (Child Fatality Prevention Team)	93.994		725	544
AIDS - State (HIV/STD - State)	93.667		100	400
Child Service Coordination	93.994		14,303	10,729
Bioterrorism Preparedness and Response	93.283		38,279	-
Bioterrorism Preparedness and Response	93.069		17,058	-
Bioterrorism H1N1 Emergency Planning	93.283		15,989	-
Bioterrorism H1N1 Counties Response	93.283		60,718	-
Local Asthma Efforts	93.283		2,672	-
Local Asthma Efforts	93.070		3,636	-
Total Division of Public Health			359,348	97,212
Total U.S. Department of Health and Human Services			92,011,798	34,126,047
<u>Environmental Protection Agency</u>				
Passed-Through NC Department of Environment and Natural Resources				
Drinking Water State Revolving Fund	66.468		3,354,250	-
TOTAL FEDERAL AWARDS			101,849,988	34,126,047