CHEROKEE COUNTY, GEORGIA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS IN ACCORDANCE WITH THE SINGLE AUDIT ACT AND *GOVERNMENT AUDITING STANDARDS*

FOR THE YEAR ENDED DECEMBER 31, 2011

CHEROKEE COUNTY, GEORGIA

FOR THE YEAR ENDED DECEMBER 31, 2011

TABLE OF CONTENTS

Page

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* **1-3**

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 ..... **4-7**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS **8-10**

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS **11**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS **12-23**

SCHEDULE OF PRIOR AUDIT FINDINGS **24**

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

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
Of Cherokee County, Georgia
Canton, Georgia

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 **Cherokee County, Georgia** (the "County") as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 22, 2012. Our report includes a reference to the change in accounting principle resulting from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective January 1, 2011. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of the Cherokee County Department of Public Health and the Sequoyah Regional Library, 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

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 Cherokee County, Georgia'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 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.

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 misstatement 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 County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2011-1 through 2011-3 to be material weaknesses.

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. We consider the deficiency, 2011-4, described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

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 matters that we reported to management of the County in a separate letter dated June 22, 2012.

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 Board of Commissioners, management of the County, federal awarding agencies and pass-through entities, and the State of Georgia and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
June 22, 2012

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Of Cherokee County, Georgia
Canton, Georgia

Compliance

We have audited Cherokee County, Georgia'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 December 31, 2011. 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. 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.

Cherokee County, Georgia's basic financial statements include the Cherokee County Department of Public Health, which received $6,979,770 in federal awards for the fiscal year ended June 30, 2011, which are not included in the schedule of expenditures of federal awards of the County for the fiscal year ended December 31, 2011. Our audit, described below, did not include the operation of the Cherokee County Department of Public Health because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in items 2011-5 and 2011-7 through 2011-9 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding allowable cost, cash management, reporting, and subrecipient monitoring that are applicable to its Community Development Block Grant Program. Compliance with such requirements is necessary, in our opinion, for Cherokee County, Georgia to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Cherokee County, Georgia 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 December 31, 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 federal programs. In planning and performing our audit, we considered Cherokee County, Georgia's internal control over compliance with the requirements that could have a direct and material effect on a major federal 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 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 Cherokee County, Georgia's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-5 and 2011-7 through 2011-9 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-6 and 2011-10 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

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 Cherokee County, Georgia as of and for the year ended December 31, 2011, and have issued our report thereon dated June 22, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Cherokee County, Georgia's 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 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 awards is fairly stated in all material respects in relation to the financial statements as a whole.

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 the responses.

This report is intended solely for the information and use of the members of the Board of Commissioners, management of the County, 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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
June 22, 2012

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Contract or Project Number	Total Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Community Development Block Grant	14.218	B-09-UC-13-0006	$ 391,605
Community Development Block Grant	14.218	B-10-UC-13-0006	267,787
Community Development Block Grant	14.218	B-11-UC-13-0006	138,409
			797,801
Passed through Georgia Urban County Consotium			
Home Investment Partnership [HOME]	14.239	HM10-5200	263,606
Total U.S. Department of Housing and Urban Development			1,061,407
U.S. DEPARTMENT OF JUSTICE			
Passed through Children Justice Coordinating Council			
Violence Against Women Grant - ARRA	16.588	W08-8-058	4,908
Violence Against Women Grant - ARRA	16.588	W08-8-066	10,000
Violence Against Women Grant - ARRA	16.588	W10-8-048	70,000
			84,908
Passed through Judicial Council of Georgia			
DUI/Drug County Program	16.585	25105	18,063
Passed through Georgia Council of Juvenile Court Judges			
Juvenile Accountability Block Grants	16.523	JB-08ST-0002	5,525
Juvenile Accountability Block Grants	16.523	JB-08ST-0002	4,500
Juvenile Accountability Block Grants	16.523	JB-09ST-0004	2,500
			12,525
Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-0020	10,948
Passed through Criminal Justice Coordinating Council			
Edward Byrne Memorial Justice Assistance Grant (DA) - ARRA	16.803	2009-SU-B9-0003	2,397
Edward Byrne Memorial Justice Assistance Grant - ARRA	16.803	B82-8-045	871
Edward Byrne Memorial Justice Assistance Grant - ARRA	16.803	B82-8-051	21,181
Edward Byrne Memorial Justice Assistance Grant - ARRA	16.803	B82-8-055	34,650
Edward Byrne Memorial Justice Assistance Grant - ARRA	16.803	B82-8-058	32,556
Total Edward Byrne Memorial Justice Assistance Cluster			102,603
Passed through Criminal Justice Coordinating Council			
Victims of Crime Act Formula Grant	16.575	C10-8-033	81,050
Victims of Crime Act Formula Grant	16.575	C11-8-020	48,593
			129,643
Bulletproof Vest Partnership Program	16.607	1121-0235	5,072
Bulletproof Vest Partnership Program	16.607	1121-0235	3,014
			8,086
Total U.S. Department of Justice			355,828

(continued)

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Contract or Project Number	Total Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Georgia Emergency Management Agency			
Emergency Performance Management Grant	97.042	2010-EP-00-0013	$ 26,006
Emergency Performance Management Grant	97.042	2011-EP-00-0015	29,808
			55,814
Citizens Corp	97.053	2010-SS-T0-0034	8,566
Hazard Mitigation Grant	97.039	2009-SS-T9-0047	500
Total U.S. Department of Homeland Security			64,880
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Atlanta Regional Commission			
Aging Services	93.044	AG0401.1	408,239
Passed through Georgia Department of Human Resources			
Family Connection - FOCUS	93.605	427-93-11110035-99	22,250
Family Connection - FOCUS	93.605	427-93-121200108-99	28,415
			50,665
Total U.S. Department of Health and Human Services			458,904
U.S. DEPARTMENT OF ENERGY			
Energy Efficiency & Conservation Grant - ARRA	81.128	SC0002432	1,250,413
Total U.S. Department of Energy			1,250,413

(continued)

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Contract or Project Number	Total Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through Governor's Office of Highway Safety			
Alcohol Impaired Driving Countermeasures Incentive Grant	20.601	GA-2011-000-00406	$ 23,581
Alcohol Impaired Driving Countermeasures Incentive Grant	20.601	GA-2012-000-00337	6,874
			30,455
Passed through Georgia Department of Human Resources			
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	427-36-20-00000063-38	101,581
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	427-93-09-090182-99	96,942
			198,523
Passed through Georgia Department of Transportation			
Formula Grants for Other Than Urbanized Areas	20.509	T003387	115,292
Formula Grants for Other Than Urbanized Areas	20.509	T003380	110,984
			226,276
Federal Transit - Formula Grant	20.507	GA96-X003	4,047
Federal Transit - Formula Grant	20.507	GA90-X266	83,348
Federal Transit - Formula Grant	20.507	GA86-X001	6,172
			93,567
Total U.S. Department of Transportation			548,821
U.S. DEPARTMENT OF LABOR			
Passed through Association of County Commissioners of Georgia			
Registered Apprenticeship and Other Training	17.201	N/A	468
Total U.S. Department of Labor			468
Total Expenditures of Federal Awards			$ 3,740,721

CHEROKEE COUNTY, GEORGIA

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Cherokee County, Georgia 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 financial statements.

During 2011, disbursements were made to sub-recipients of the following grant programs:

Program	CFDA Number	Sub-recipient	Amount
Community Development Block Grant (CDBG)	14.218	Cherokee Day Training Center	$ 272,064
Community Development Block Grant (CDBG)	14.218	Boys and Girls Club	97,714
Community Development Block Grant (CDBG)	14.218	Anna Crawford Children's Center	28,219
Community Development Block Grant (CDBG)	14.218	MUST	187
Community Development Block Grant (CDBG)	14.218	CASA	4,000
Community Development Block Grant (CDBG)	14.218	Goshen Valley Boys Ranch	20,000
Community Development Block Grant (CDBG)	14.218	Cherokee Family Violence Center	33,435
Community Development Block Grant (CDBG)	14.218	City of Woodstock	80,000
Community Development Block Grant (CDBG)	14.218	City of Canton	39,498
Community Development Block Grant (CDBG)	14.218	YMCA	2,863
Total CDBG			$ 577,980

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION I
SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	__X__ yes ____ no
Significant deficiencies identified not considered to be material weaknesses?	__X__ yes ____ none reported
Noncompliance material to financial statements noted?	_____ yes __X_ no

Federal Awards

Internal Control over major programs:	
Material weaknesses identified?	__X__ yes ____ no
Significant deficiencies identified not considered to be material weaknesses?	__X__ yes ____ none reported
Type of auditor's report issued on compliance for major programs	Qualified for Community Development Block Grant (CFDA 14.218) Unqualified for all other major programs
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	__X__ yes ____ no

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant
16.738	Edward Byrne Memorial Justice Assistance
16.803	Edward Byrne Memorial Justice Assistance - ARRA
81.128	Energy Efficiency & Conservation Grant – ARRA

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	____ yes __X__ no

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011-1 Restatement of Prior Year Balances

Criteria: Internal controls should be in place to ensure that financial statements are properly presenting the financial position and results of the County.

Condition: Internal controls were not sufficient to detect a material misstatement in the County's financial statements for the year ended December 31, 2010.

Context/Cause: During our audit for the year ended December 31, 2011, an adjustment was required to correct the prior allocation of cash amongst the following funds:

- In the General Fund, the County is restating the cash and the fund balance for $1,462,465 to increase the cash balances as of December 31, 2010 for cash which was incorrectly reported in other funds.
- In the Fire Fund, the County is restating the cash and fund balance for $1,438,297 to decrease the cash balances as of December 31, 2010 for cash incorrectly reported in the Fire Fund.
- In the Debt Service Fund, the County is restating the cash and fund balance for $24,167 to decrease the cash balance as of December 31, 2010 for cash incorrectly reported in the Debt Service Fund.

Effects: While the County made audit adjustments of approximately $1,462,465 to correct the balances within the General Fund, Fire Fund and Debt Service Fund, the overall restatement had no affect on the County as a whole, as the three entries net to zero and restated the allocation of the County's pooled cash account for the year ending December 31, 2010.

Recommendation: We recommend the County carefully review the financial statements and applicable reporting requirements under generally accepted accounting principles to ensure that all information and financial data is properly stated.

Auditee's Response: We concur with the finding. We will take necessary steps in the future to ensure that the cash balances are properly stated.

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011-2 Expenditures/Expenses and Related Liabilities

Criteria: Generally, expenditures/expenses should be recognized as soon as a liability is incurred, regardless of the timing of the related cash flows.

Condition: Internal controls were not sufficient to detect material misstatements in the reporting of the County's expenditures/expenses and related liabilities.

Context/Cause: During our testing of expenditures/expenses, certain audit adjustments were required to correct current year amounts. The nature of these adjustments are as follows:

- In the Recreation Bond Fund, adjustments of approximately $200,000 were required to properly accrue outstanding retainage payable balances of $172,000 and outstanding construction projects of $28,000.
- In the SPLOST V Fund, adjustments of approximately $127,000 were required to properly accrue outstanding retainage payable balances of $50,000 and outstanding construction projects of $77,000.
- In the SPLOST V Fund, an adjustment of approximately $520,000 of expenditures was improperly charged to the SPLOST V Fund and as a result was subsequently reimbursed by the Insurance Premium Fund.
- In the Development Authority, and adjustment of approximately $165,000 was required to record the expenditure and related liability for a past due portion of the debt service payment. The due date was prior to December 31, 2011 and as the payment was not made until January 2012, the Authority should have shown this amount as a current liability of the fund.

Effects: Audit adjustments totaling approximately $1,012,000 were needed to correctly report expenditures and the related liabilities.

Recommendation: We recommend the County carefully review all expenditures and related liabilities to ensure all necessary transactions are properly reported.

Auditee's Response: We concur with the finding. We will take necessary steps in the future to ensure that expenditures/expenses and the related liabilities are properly recorded.

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011-3 Opening Equity (Development Authority of Cherokee County)

Criteria: Internal controls should be in place to ensure that financial statements are properly presenting the financial position and results of operations of the Development Authority.

Condition: Internal controls were not sufficient to detect misstatements in the reporting of the opening equity of the Development Authority.

Context/Cause: During our testing, an audit adjustment was required to adjust the opening equity of the Development Authority. The entry included adjusting balances incorrectly coded to equity during the current year, as well as to record audit entries from the prior year which were never posted to the Authority's books.

Effects: An audit adjustment totaling approximately $5,592,000 was needed to correctly report opening equity balances.

Recommendation: We recommend the Development Authority carefully review all opening equity balances to ensure that the general ledger agrees with the audited reports from the prior year.

Auditee's Response: We concur with the finding. We will take the necessary steps in the future to ensure that all equity balances are reconciled.

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011-4 Segregation of Duties

Criteria: Internal controls should be in place which provide reasonable assurance that an individual cannot misappropriate funds without such actions being detected during the normal course of business.

Condition: The Development Authority do not have adequate controls to properly segregate all responsibilities and does not have adequate compensating controls to prevent or detect errors.

Context: During our review of internal controls, we noted the Development Authority lacked a proper segregation of duties, as the same person is responsible for preparing and issuing the monthly disbursements, as well as reconciling the monthly bank statements.

Effects or Possible Effects: Failure to properly segregate duties may allow for errors or irregularities to occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions.

Cause: The size of the staff of the Development Authority precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Recommendation: We recommend the Development Authority properly segregate duties relative to the above processes or implement adequate compensating controls in areas where the appropriate segregation is not feasible.

Auditee's Response: We concur with the finding. We will evaluate the options and determine the most efficient way to implement compensating review procedures to help mitigate the risks in areas where segregation of duties cannot be achieved.

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011-5 Reporting -

Program: U.S. Department of Housing and Urban Development (CFDA No. 14.218)
CFDA Program Title: Community Development Block Grants
Grant Number: B-09-UC-13-0006, B-10-UC-13-0006, and B-11-UC-13-0006

Criteria: Grant requirements for the program require the County to complete the PR03 and PR26 forms for submission, summarizing the draws and activity of the County in relation to the various program years.

Condition: As of December 31, 2011, the County was not properly completing the PR03 and PR26 forms.

Context/Cause: The PR03 and PR26 were being completed on a cash basis of reporting; however, per review of the instructions and discussions with HUD, the reports are to be completed using the accrual method of accounting, so as to allow the reports to agree with the County's general ledger.

Effects: Because the County was not properly completing the annual PR03 and PR26, the reports were understated by approximately $215,000 and $218,000, respectively.

Questioned Costs: There are no questioned costs. The County was completing the progress reports incorrectly, but this reporting did not affect the costs charged to the program.

Recommendation: The County should initiate a process to have all applicable reports submitted timely to the State. In instances where the County is unclear of their responsibilities, they should contact the grantor to determine the necessary procedures.

Auditee's Response: We concur. The County will initiate a process to ensure that all future reports are properly and timely submitted to the State.

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011-6 Davis Bacon -

Program: U.S. Department of Energy (CFDA No. 81.128)
CFDA Program Title: Energy Efficiency & Conservation Block Grant - ARRA
Grant Number: SC0002432

Criteria: Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Condition: Internal controls were not sufficient to enable the County to obtain the weekly certified payrolls as required.

Context/Cause: During our testing of the grant, we were not able to obtain the certified payroll documents from the County for all five of the contractors used in the activity of this program. Upon request of the documents, management of the County was able to contact the contractor and the contracted third party grant administrator to obtain the reports, but the request were made after the close of the fiscal year and were not being obtained on a weekly basis throughout the project.

Effects: The County did not obtain the weekly certified payrolls, and as such, the County was non-compliant with the requirements of the Davis Bacon Act. It was noted the County was able to obtain the needed payroll reports after the year end, however the reports should have been obtained weekly as the work was performed.

Questioned Costs: There are no questioned costs. The County was able to receive subsequent copies of the certified payrolls; however, the reports should have been obtained prior to the County paying the invoices to the contractor.

Recommendation: The County has a significant amount of grant activity and would benefit greatly from a knowledgeable and centralized grant administration process. Certified payroll reports, when the Davis Bacon Act applies, should be obtained from contractors prior to payment of the invoice.

Auditee's Response: We concur. The County has implemented procedures to ensure all certified payroll information is being obtained.

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011-7 Allowable Costs -

Program: U.S. Department of Housing and Urban Development (CFDA No. 14.218)
CFDA Program Title: Community Development Block Grants
Grant Number: B-09-UC-13-0006, B-10-UC-13-0006, and B-11-UC-13-0006

Criteria: OMB A-87 cost principles for state, local and Indian tribal governments require documentation for personnel costs charged to Federal programs to meet the following standards: (a) is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non Federal activities; (2) follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and (3) Is determined and supported as provided in subsection h. Subsection h states: "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee" and "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency."

Condition: During our testing of the compensation expenses charged to this grant, we noted the County did not have proper procedures in place to support personnel costs through periodic certifications, as required by OMB A-87 Attachment B, section 8.

Context/Cause: The County did not have adequate controls in place to ensure the required documentation was being obtained and maintained in the files.

Effects: These costs could potentially be considered unallowable.

Questioned Costs: We identified the full amount of wages as questioned costs, which accounted for $72,629 as of December 31, 2011.

Recommendation: The County should ensure all required documentation and support is obtained and maintained in order to support and validate charges made to the grant.

Auditee's Response: We concur. The County will initiate a process to create a review and retention process whereby the required reports are maintained.

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011-8 Cash Management -

Program: U.S. Department of Housing and Urban Development (CFDA No. 14.218)
CFDA Program Title: Community Development Block Grants
Grant Number: B-09-UC-13-0006, B-10-UC-13-0006, and B-11-UC-13-0006

Criteria: When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement.

Condition: Internal controls were not sufficient to detect errors in the reimbursement and related reporting process for the County's CDBG program.

Context/Cause: During our audit, we noted the County requested funds prior to the payment of grant expenditures and, at times, funds were requested prior to expenditures being incurred at all. The County requested the advance funding under the guidance from the local office of the grantor, which suggested they draw down the additional funding.

Effects: During the course of the year, the County advance funded the program by requesting funds from the grantor before the disbursement of the expenditures by the County. The County drew advance funds of $133,072 during the year ending December 31, 2011.

Questioned Costs: There are no questioned costs. While the County did receive advance funding on the grant, they did incur sufficient costs by December 31, 2011 to support the draw, therefore all receipts were supported by incurred costs as of December 31, 2011.

Recommendation: All reimbursement requests and reports filed by the County should be supported by accounting records and accurately reflect expenditures already incurred and paid for. All reimbursement requests should also be reviewed and approved by someone independent of the preparer, and the approval should be documented and maintained in the grant files.

Auditee's Response: We concur. The County will initiate a process to ensure that all future reports are accurately completed and filed with the grantor.

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011-9 Subrecipient Monitoring -

Program: U.S. Department of Housing and Urban Development (CFDA No. 14.218)
CFDA Program Title: Community Development Block Grants
Grant Number: B-09-UC-13-0006, B-10-UC-13-0006, and B-11-UC-13-0006

Criteria: As a pass-through entity, the County is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Condition: Internal controls were not sufficient to allow the County to properly comply with and adhere to the various requirements of a pass-through entity, although they manage the grant activity as a pass-through agency.

Context/Cause: As the County was not obtaining the annual financial statements, they were not performing the required procedures as noted above.

Effects: This weakness resulted in a compliance finding for the current year as the County was not performing any of the monitoring procedures noted above.

Questioned Costs: There are no questioned costs.

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011-9 Subrecipient Monitoring (Continued) -

Recommendation: The County should ensure they understand all monitoring requirements as required by OMB A-133 and develop controls necessary to ensure they comply with all requirements applicable to sub-granting federal funds.

Auditee's Response: We concur. The County will develop controls sufficient to permit for the required monitoring process.

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011-10 Procurement -

Program: U.S. Department of Justice (CFDA No. 16.803)
CFDA Program Title: Edward Byrne Justice Assistance Grant - ARRA
Grant Number: B82-8-055

Criteria: States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Condition: Internal controls were not sufficient to permit the project related to this grant to follow the County or State procurement policies.

Context/Cause: The County had one project which did not follow the County's procurement policy of obtaining the required sealed bids which are to be reviewed and submitted for approval from the Board of Commissioners. The requesting department did not consider the complete cost of the project, only considered the installment payments, when determining which level of approval the request required in accordance with the County's policy. Additionally, as the project was contracted for greater than $25,000, the County should have performed a search of the federally maintained database of excluded parties to ensure the vendor was not suspended or debarred from working with federal funds.

Effects: As the project was not properly procured and the County did not perform the appropriate testing for suspension or debarment, the County was in violation of the procurement requirements set forth by OMB A-133.

Questioned Costs: The entire project cost of $34,650 will be cited as questioned costs.

Recommendation: The County should develop controls to ensure all purchases made by the County and all departments of the County comply with State and local procurement policies. Additionally, all federally funded projects should be routed through the County's procurement department to ensure all required documentation and procedures have been performed, prior to establishing any contracts for the project.

Auditee's Response: We concur. The County will initiate a process to ensure that all federally funded projects are appropriately reviewed and approved to ensure compliance with federal and local requirements.

CHEROKEE COUNTY, GEORGIA

SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011

2010-10 Community Development Block Grant – Reporting
U.S. Department of Housing and Urban Development, CFDA# 14.218

Condition: As of December 31, 2010, the County was not properly completing the PR03 and PR26 forms, and was not aware of the requirement to submit the SF-425.

Context/Cause: The PR03 and PR26 were being completed on a cash basis of reporting; however, per review of the instructions and discussions with HUD, the reports are to be completed using the accrual method of accounting, so as to allow the reports to agree with the County's general ledger. County management was not aware of the requirement to complete the SF-425 and therefore was not submitting those quarterly reports.

Response: The County has not fully corrected this problem, as it is cited in 2011-5 above.