

**COUNTY OF LUZERNE,
PENNSYLVANIA**

SINGLE AUDIT REPORT

YEAR ENDED DECEMBER 31, 2011

COUNTY OF LUZERNE, PENNSYLVANIA
SINGLE AUDIT REPORT
YEAR ENDED DECEMBER 31, 2011

CONTENTS

	<u>Page</u>
Independent Auditors' Report on the Supplementary Schedule of Expenditures of Federal Awards	1 – 2
Schedule of Expenditures of Federal Awards	3
Notes to Schedule of Expenditures of Federal Awards	4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	5-7
Independent Auditors' 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	8-10
Schedule of Findings and Questioned Costs	11-17
Summary Schedule of Prior Audit Findings	18

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT ON THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

County Council
County of Luzerne
Wilkes-Barre, Pennsylvania

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 the COUNTY OF LUZERNE, PENNSYLVANIA, 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 April 18, 2013 that was qualified for not auditing the Adult Probation Fund and Liquid Fuels Fund, not auditing the Capital Assets, not recording a liability for Postemployment Benefits, not adopting the provisions of GASB 51 and 53, and not accounting for related party and guaranteed debt transactions. These financial statements are the responsibility of the COUNTY OF LUZERNE, PENNSYLVANIA's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Luzerne County Children & Youth Services and Luzerne County Office of Community Development which are both major funds and represent 14%, 27% and 21%, respectively, of the assets, net assets and revenues of the governmental activities. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Luzerne County Children and Youth Services and Luzerne County Office of Community Development, is based on the reports of other auditors.

In addition, we did not audit the financial statements of the Domestic Relations Department, the Luzerne County Flood Protection Authority or the Human Services Department, which are non major funds and 57%, 135% and 13% respectively the assets, net assets and revenues of the reported governmental activities and 6%, 5% and 31% of the assets, fund balances and revenues of the reported governmental funds. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion insofar as it relates to the amounts included for those funds is based on the reports of the other auditors.

In addition, we did not audit the financial statements of the Luzerne/Wyoming Counties Transportation Department Enterprise Fund which is both a major fund and 100% of the assets, net assets and revenues of the Business-Type Activities. Those statements were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the amounts included for those funds is based on the report of the other auditors.

<i>Harrisburg</i>	<i>Lehigh Valley</i>	<i>Philadelphia</i>	<i>Pittsburgh</i>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	1101 West Hamilton Street Allentown, PA 18101-1043 610.871.5077 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103

Zelenkofske Axelrod LLC

County Council
County of Luzerne
Page 2

In addition, we did not audit the financial statements of the Pension Trust Fund, which is both a major fund and 82%, 87%, and 41% of the assets, net assets and revenues of the reported aggregate remaining fund information. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for that funds is based on the report of the other auditors.

Finally, we did not audit the financial statements of Luzerne County Community College and the Luzerne County Convention & Visitor's Bureau, which represents 100% of the assets, net assets, and revenues shown as discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion insofar as it relates to the amounts included for those funds is based on the reports of the other auditors.

Except as noted in the first paragraph, 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. The financial statements of Luzerne County Retirement Fund, Luzerne County Convention & Visitors Bureau, and Luzerne County Flood Protection Authority were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the COUNTY OF LUZERNE, PENNSYLVANIA's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards 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 basic 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, except for the effect on the accompanying information of the qualified opinion on the financial statements described above, the information is fairly stated in all material respects in relation to the financial statements as a whole.



ZELENKOFSCHE AXELROD LLC

Harrisburg, Pennsylvania
April 18, 2013

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2011

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture		
Pass-through Pennsylvania Department of Agriculture		
Emergency Food Assistance Cluster		
Emergency Food Assistance Program (Administrative Costs)	10.568	\$ 90,407 *
Emergency Food Assistance Program (Food Commodities)	10.569	355,449 *
Total Emergency Food Assistance Cluster		<u>445,856</u>
Total U.S. Department of Agriculture		<u>445,856</u>
U.S. Department of Justice		
State Criminal Alien Assistance Program	16.606	160,431
Bulletproof Vest Partnership Program	16.607	8,700
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	20,959
Pass-through Pennsylvania Commission on Crime and Delinquency		
Juvenile Accountability Block Grant	16.523	26,959
Drug Court Reimbursement	16.572	277,322
Edward Byrne Memorial Justice Assistance Grant Program	16.738	160,543
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA	16.804	63,872
Total JAG Cluster		<u>224,415</u>
Total passed through Pennsylvania Commission on Crime and Delinquency		<u>528,696</u>
Pass-through Delaware County		
Internet Crims Against Children Task Force Program - ARRA	16.800	124,773
Total U.S. Department of Justice		<u>843,559</u>
U.S. Department of Transportation		
Pass-through Pennsylvania Department of Transportation		
Airport Improvement Program	20.106	196,779
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	3,105,297 *
Total Highway Planning and Construction Cluster		<u>3,105,297</u>
Pass-through Pennsylvania Emergency Management Agency		
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	55,885
Metropolitan Transportation Planning	20.505	41,492
Total U.S. Department of Transportation		<u>3,399,453</u>
U.S. Department of Energy		
Energy Efficient Conservation Block Grant Program - ARRA	81.128	2,046,352 *
Total U.S. Department of Energy		<u>2,046,352</u>
U.S. Department of State		
Pass-through the Pennsylvania Department of State		
Help America Vote Act, Section 101 & 102 Grants	39.011	189,843
Help America Vote Act Requirements Payments	90.401	607,009
Total U.S. Department of State		<u>796,852</u>
Total Federal Awards		<u>\$ 7,532,072</u>

* Denotes Program Tested as Major

COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2011

NOTE 1: REPORTING ENTITY

The County of Luzerne, Pennsylvania (the "County"), as the reporting entity for financial reporting purposes, is defined in Note 1 to the County's financial statements. For purposes of preparing the schedule of expenditures of federal awards, the County's reporting entity differs from that used for financial purposes, in that the County has engaged other auditors to perform single audits of several agencies of the County. The federal expenditures included in the separate single audit reports have not been included herein.

Except as indicated above, the accompanying schedule of federal expenditures presents the activity of all federal award programs of the County.

NOTE 2: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the County's financial statements.

NOTE 3: RISK-BASED AUDIT APPROACH

The 2011 threshold for determining Type A and Type B programs is \$300,000.

The Help America Vote Act Requirements Payments Program CFDA# 90.401 was deemed a low-risk Type A program and was not audited as major.

The amount expended under programs audited as major federal programs for the year ended December 31, 2011, totaled \$5,597,505 or 74% of total federal awards expended.

Zelenkofske Axelrod LLC

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*

County Council
County of Luzerne
Wilkes-Barre, Pennsylvania

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 the COUNTY OF LUZERNE, PENNSYLVANIA, as of and for the year ended December 31, 2011, which collectively comprise the COUNTY OF LUZERNE, PENNSYLVANIA's basic financial statements and have issued our report thereon dated April 18, 2013 that was qualified for not auditing the Adult Probation Fund and Liquid Fuels Fund, not auditing the Capital Assets, not recording a liability for Postemployment Benefits, not adopting the provisions of GASB 51 and 53, and not accounting for related party and guaranteed debt transactions. We did not audit the financial statements of Luzerne County Children & Youth Services and Luzerne County Office of Community Development which are both major funds and represent 14%, 27% and 21%, respectively, of the assets, net assets and revenues of the governmental activities. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Luzerne County Children and Youth Services and Luzerne County Office of Community Development, is based on the reports of other auditors.

In addition, we did not audit the financial statements of the Domestic Relations Department, the Luzerne County Flood Protection Authority or the Human Services Department, which are non major funds and 57%, 135 % and 13% respectively the assets, net assets and revenues of the reported governmental activities and 6%, 5% and 31% of the assets, fund balances and revenues of the reported governmental funds. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion insofar as it relates to the amounts included for those funds is based on the reports of the other auditors.

In addition, we did not audit the financial statements of the Luzerne/Wyoming Counties Transportation Department Enterprise Fund which is both a major fund and 100% of the assets, net assets and revenues of the Business-Type Activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those funds is based on the report of the other auditors.

<i>Harrisburg</i>	<i>Lehigh Valley</i>	<i>Philadelphia</i>	<i>Pittsburgh</i>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	1101 West Hamilton Street Allentown, PA 18101-1043 610.871.5077 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103

Zelenkofske Axelrod LLC

County Council
County of Luzerne
Wilkes-Barre, Pennsylvania

In addition, we did not audit the financial statements of the Pension Trust Fund, which is both a major fund and 82%, 87%, and 41% of the assets, net assets and revenues of the reported aggregate remaining fund information. Those statements were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the amounts included for that fund is based on the report of the other auditors.

Finally, we did not audit the financial statements of Luzerne County Community College and the Luzerne County Convention & Visitor's Bureau, which represent 100% of the assets, net assets, and revenues shown as discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for the discretely presented component units is based on the reports of the other auditors.

Except as discussed in the first paragraphs 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. The financial statements of the Luzerne County Retirement Fund, the Luzerne County Convention & Visitor's Bureau, and the Luzerne County Flood Protection Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the COUNTY OF LUZERNE, PENNSYLVANIA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered COUNTY OF LUZERNE, PENNSYLVANIA'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 OF LUZERNE, PENNSYLVANIA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the COUNTY OF LUZERNE, PENNSYLVANIA'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.

Zelenkofske Axelrod LLC

Page 7

County Council
County of Luzerne
Wilkes-Barre, Pennsylvania

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 deficiencies described in the accompanying schedule of findings and questioned costs as finding 11-1, 11-2, 11-3, 11-4, and 11-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the COUNTY OF LUZERNE, PENNSYLVANIA'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*.

The COUNTY OF LUZERNE, PENNSYLVANIA'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 OF LUZERNE, PENNSYLVANIA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of Luzerne County, County Council, 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.

Zelenkofske Axelrod LLC

ZELENKOFKSKE AXELROD LLC

Harrisburg, PA
April 18, 2013

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' 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

County Council
County of Luzerne
Wilkes-Barre, Pennsylvania

Compliance

We have audited the COUNTY OF LUZERNE, PENNSYLVANIA's 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 OF LUZERNE, PENNSYLVANIA's major federal programs for the year ended December 31, 2011. COUNTY OF LUZERNE, PENNSYLVANIA'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 OF LUZERNE, PENNSYLVANIA's management. Our responsibility is to express an opinion on the COUNTY OF LUZERNE, PENNSYLVANIA'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 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 OF LUZERNE, PENNSYLVANIA'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 OF LUZERNE, PENNSYLVANIA's compliance with those requirements.

As described in item 11-5 and 11-6 in the accompanying Schedule of Findings and Questioned Costs, COUNTY OF LUZERNE, PENNSYLVANIA, did not comply with requirements regarding allowability and cash management that is applicable to all major programs and the Highway Planning and Construction Cluster, respectively. Compliance with such requirement is necessary, in our opinion, for COUNTY OF LUZERNE, PENNSYLVANIA, to comply with the requirements applicable to those programs.

<u>Harrisburg</u>	<u>Lehigh Valley</u>	<u>Philadelphia</u>	<u>Pittsburgh</u>
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	1101 West Hamilton Street Allentown, PA 18101-1043 610.871.5077 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103

Zelenkofske Axelrod LLC

County Council
County of Luzerne
Wilkes-Barre, Pennsylvania

In our opinion, except for the noncompliance described in the preceding paragraph, COUNTY OF LUZERNE, PENNSYLVANIA, 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

The management of COUNTY OF LUZERNE, PENNSYLVANIA, 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 COUNTY OF LUZERNE, PENNSYLVANIA'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 COUNTY OF LUZERNE, PENNSYLVANIA'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 a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 11-5 and 11-6 to be material weaknesses.

Zelenkofske Axelrod LLC

Page 10

County Council
County of Luzerne
Wilkes-Barre, Pennsylvania

The COUNTY OF LUZERNE, PENNSYLVANIA'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 OF LUZERNE, PENNSYLVANIA's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, County Council, others within the entity, 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.

Zelenkofske Axelrod LLC

Zelenkofske Axelrod LLC

Harrisburg, Pennsylvania
April 18, 2013

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

Section I - Summary of Auditors' Findings

Financial Statements

Type of auditors' report issued:

Qualified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiency(s) identified not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted

Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiency(s) identified not considered to be material weaknesses? Yes None Reported

Type of auditors' report issued on compliance for major programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?

Yes No

Identification of major programs

<u>Name of Federal Program or Cluster:</u>	<u>CFDA Number(s)</u>
Highway Planning and Construction Cluster	20.205
Emergency Food Assistance Cluster	10.568/10.569
Energy Efficient Conservation Block Grant Program – ARRA	81.128

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

Auditee qualified as low-risk auditee? Yes No

COUNTY OF LUZERNE, PENNSYLVANIA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2011

Section II - Financial Statement Findings and Questioned Costs (Continued)

Finding 11-1

Capital Asset Accounting

Criteria:	To ensure proper control, policies and procedures should be designed and implemented to make certain that all capital purchases, as defined by the County, are properly authorized, completely and accurately accounted for and, periodically substantiated via inventory counts, etc., where applicable. In addition, the policies and procedures should address the assignment of asset lives over which the assets are depreciated. Also, costs associated with capital projects of the County, such as building construction or improvements, should be completely and accurately accounted for as "work-in-process" until project completion, at which time the completed asset will be placed in service and depreciated.
Condition:	Fixed assets are accounted for as capital assets in the County's government-wide financial statements and are defined by the County as assets with a value of \$5,000 or more and \$25,000 or more for infrastructure assets. There is lack of support to perform adequate audit procedures over the reported amounts.
Cause:	There are no formal policies and/or procedures in place to ensure the completeness and accuracy of the County's capital assets inventory and the related depreciation of these assets.
Effect:	We issued an qualified opinion on the capital asset balances in the Governmental Activity financial statements.
Questioned Costs:	None
Recommendation:	Management should develop and implement formal policies and procedures to ensure that capital asset purchases are properly authorized, completely and accurately recorded and accounted for and, periodically substantiated. The policies and procedures should also address the assignment of asset lives and the tracking of projects that are completed over time (i.e. work-in-process).
Management's Response:	Capital Asset Tracking will be performed by the Purchasing Department/Accounts Payable, as they are involved in each and every purchase for the County.

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Section II - Financial Statement Findings and Questioned Costs (Continued)

Finding 11-2

Related Party Transactions

Criteria:	GAGAS requires auditor's to test related party transactions to determine that the transaction was consummated on terms comparable to those that would be present in arm's length-transactions. In addition, GASB requires that certain material transactions be reported in the financial statements. Without a complete listing of related parties, it is impossible to test related party transactions for fairness or report on certain transactions in the financial statements.
Condition:	The financial statements do not reflect the required related party disclosures.
Cause:	The County does not have an adequate method to track related party transactions.
Effect:	The County is at risk of related party transactions occurring that are not fair or appropriate. In addition, the County received a qualified audit report related to the omission of related party transaction information.
Questioned Costs:	None
Recommendation:	In the future, the County should document and monitor all related party activity.
Management's Response:	The County will assess and implement procedures to adequately track all related party transactions.

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Section II - Financial Statement Findings and Questioned Costs (Continued)

Finding 11-3

Report Qualifications

Criteria:	The County is required to conform to accounting principles generally accepted in the United States of America.
Condition:	The financial statements of the adult probation fund were not audited. GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" and 53, "Accounting and Financial Reporting for Derivatives" have not been implemented. A liability for postemployment benefits has not been recorded. The financial statement of the County of Luzerne Self-Insured Workers' Compensation Fund did not disclose two year accumulation of changes in the aggregate liabilities for claims.
Cause:	The County has elected not to conform with accounting principles generally accepted in the United States of America.
Effect:	The County's financial statement opinion was qualified for the above listed conditions.
Questioned Costs:	None
Recommendation:	The County should take the appropriate measures to ensure their financial statements are in conformity with accounting principles generally accepted in the United States of America.
Management's Response:	The County is currently assessing the procedures and will take the appropriate measures in the future to conform to accounting principles generally accepted on the United States of America.

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Section II - Financial Statement Findings and Questioned Costs (Continued)

Finding 11-4

Guaranteed Debt

Criteria:	GAAP requires that certain guaranteed debt information be disclosed in the financial statements.
Condition:	The financial statements of the County do not include debt guaranteed by the County.
Cause:	The County does not maintain the proper documentation to report on guaranteed debt disclosures in the financial statements.
Effect:	There are additional obligations of the County that are not reported in the financial statements and as a result the County received a qualified audit opinion.
Questioned Costs:	None
Recommendation:	County management should prepare a listing of each organization in which the County has a guaranteed debt. In addition, the County should be monitoring these organizations to determine if there is an increased risk that County may be liable for debt payments.
Management's Response:	The County will assess and implement procedures to adequately document and track guaranteed debt obligations.

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Section II - Financial Statement Findings and Questioned Costs (Continued)

<u>Finding 11-5</u>	<u>Allowability of Payroll Expenditures</u>
	All programs
Criteria:	An effective system of internal controls should include approval of timesheets. Payroll expenditures should be supported by approved timesheets.
Condition:	During our testing, we noted that 29 out of the 40 timesheets selected were not approved by respective department heads.
Cause:	The County does not have consistent control procedures in place for all departments with respect to approval of timesheets.
Effect:	The payroll expenditures are not properly supported by approved timesheets which could result in misappropriation of funds.
Questioned Costs:	The amount of questioned costs, if any, is undeterminable.
Recommendation:	The County should implement procedures that require timesheets to be approved by department heads.
Management's Response:	The County agrees with the finding and will implement procedures in the future to correct it.

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Section III - Federal Awards' Findings and Questioned Costs

See also finding 11-5 in Section II

Finding 11-6

Cash Management

Highway Planning and Construction Cluster CFDA #20.205

Criteria: In accordance with OMB Circular A-102, the County should minimize the time elapsing between the receipt of Federal funds and the disbursement of funds to its subrecipients for program purposes.

Condition: During our testing we noted 1 out of 37 items tested where the contractor was not paid by the County within a timely manner.

Cause: Internal controls over the reimbursement and payment process were not functioning as designed. The County was not in compliance with requirements.

Effect: The County was not in compliance with Cash Management requirements.

Questioned Costs: The amount of questioned costs if any, is undeterminable.

Recommendation: The County should ensure all vendors have been paid within a timely manner prior to request for reimbursement from the granting agency.

Management's Response: The County agrees with the finding and will implement procedures in the future to correct it.

COUNTY OF LUZERNE, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011

The summary which follows indicates the current year status of findings identified in the prior year Single Audit Report.

<u>County Program</u>	<u>Finding Reference</u>	<u>Description</u>	<u>Current Year Status</u>
911 Program	08-8	Act 78	Unresolved
Various	10-1	Fixed Asset Accounting	Unresolved See 11-1
Various	10-2	Related Party Transactions	Unresolved See 11-2
Various	10-3	Report Qualifications	Unresolved See 11-3
Various	10-4	Guaranteed Debt	Unresolved See 11-4
Emergency Food Administration Cluster	10-5	Cash Management	Resolved