

**COUNTY OF LUZERNE,
PENNSYLVANIA**

SINGLE AUDIT REPORT

YEAR ENDED DECEMBER 31, 2009

COUNTY OF LUZERNE, PENNSYLVANIA
SINGLE AUDIT REPORT
YEAR ENDED DECEMBER 31, 2009

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Zelenkofske Axelrod LLC

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

Board of County Commissioners
County of Luzerne
Wilkes-Barre, Pennsylvania

We have audited the accompanying 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 (the "County"), as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon February 23, 2011 that was qualified for not auditing the Adult Probation Fund, not auditing the Capital Assets, not recording a liability for Postemployment Benefits, and not accounting for related party and guaranteed debt transactions. These financial statements are the responsibility of the County'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 12%, 25% and 22%, 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 Liquid Fuels Fund, the Luzerne County Flood Protection Authority or the Human Services Department, which are non major funds and 55%, 22% and 17% respectively the assets, net assets and revenues of the reported governmental activities and 8%, 9% and 12% 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. Also we did not audit the financial statements of the Internal Services Fund which is both a major fund and less than 1% respectively of assets, net assets and revenues of the reported governmental activities. 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.

<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

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Board of County Commissioners
County of Luzerne
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In addition, we did not audit the financial statements of the Pension Trust Fund, which is both a major fund and 96%, 100%, and 100% of the assets, net assets and revenues of the reported Fiduciary 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.

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.

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 provides a reasonable basis for our opinions.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the of COUNTY OF LUZERNE, PENNSYLVANIA's financial statements, as a whole. 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion based on our audit and the reports of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Zelenkofske Axelrod LLC
ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania
February 23, 2011

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2009

<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	64,655 *
Emergency Food Assistance Program (Food Commodities)	10.569	474,537 *
Total Emergency Food Assistance Cluster		<u>539,192</u>
Total U.S. Department of Agriculture		<u>539,192</u>
U.S. Department of the Interior		
Pass-through Pennsylvania Fish and Boat Commission		
Fish and Wildlife Cluster		
Sport Fish Restoration Program	15.605	275,000
Total Fish and Wildlife Cluster		<u>275,000</u>
Total U.S. Department of Interior		<u>275,000</u>
U.S. Department of Justice		
State & County Alien Assistance Program	16.572	194,541
Edward Byrne Memorial State and Local Law Enforcement Assistance		
Discretionary Grants Program	16.580	76,997
Drug Court Discretionary Grant Program	16.585	72,758
Public Safety Partnership and Community Policing Grant	16.710	27,400
Pass-through Pennsylvania Commission on Crime and Delinquency		
Juvenile Accountability Block Grant	16.523	10,596
Violence Against Women Formula Grants	16.588	39,208
Project Safe Neighborhoods	16.609	29,386
Edward Byrne Memorial Justice Assistance Grant Program	16.738	45,806
Total passed through Pennsylvania Commission on Crime and Delinquency		<u>124,996</u>
Pass-through Delaware County		
Internet Crimes Against Children Task Force Program - ARRA	16.800	20,402
Total U.S. Department of Justice		<u>517,094</u>
U.S. Department of Transportation		
Pass-through Pennsylvania Department of Transportation		
Airport Improvement Program	20.106	194,272
Highway Planning and Construction Cluster		
Highway Planning and Construction	20.205	776,828 *
Highway Planning and Construction - ARRA	20.205	1,186,246 *
Total Highway Planning and Construction Cluster		<u>1,963,074</u>
Pass-through Pennsylvania Emergency Management Agency		
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	13,636
Total U.S. Department of Transportation		<u>2,170,982</u>
U.S. Department of Energy		
Energy Efficient Conservation Block Grant Program - ARRA	81.128	30,956
Total U.S. Department of Energy		<u>30,956</u>
U.S. Department of State		
Pass-through the Pennsylvania Department of State		
Help America Vote Act, Section 101 & 102 Grants	39.011	16,029
Help America Vote Act Requirements Payments	90.401	316,343 *
Voting Access for Individuals with Disabilities Grants to States	93.617	2,983
Total U.S. Department of State		<u>335,355</u>
Federal Emergency Management Agency		
Pass-through Pennsylvania Emergency Management Agency		
Disaster Grants-Public Assistance	97.036	227,528
Emergency Management Performance Grant	97.042	52,622
Pre-Disaster Mitigation Grant	97.047	87,525
Total Federal Emergency Management Agency		<u>367,675</u>
Total Federal Awards		<u>\$ 4,236,254</u>

* Denotes Program Tested as Major

COUNTY OF LUZERNE, PENNSYLVANIA
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2009

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 2009 threshold for determining Type A and Type B programs is \$300,000.

All Type A programs that were audited as major programs for federal purposes.

The amount expended under programs audited as major federal programs for the year ended December 31, 2009, totaled \$2,818,609 or 67% of total federal awards expended.

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

Board of County Commissioners
County of Luzerne
Wilkes-Barre, Pennsylvania

We have audited the accompanying 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 (the "County"), as of and for the year ended December 31, 2009, which collectively comprise the County's basic financial statements and have issued our report thereon February 23, 2011 that was qualified for not auditing the Adult Probation Fund, not auditing the Capital Assets, not recording a liability for Postemployment Benefits, and not accounting for related party and guaranteed debt transactions. These financial statements are the responsibility of the County'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 12%, 25% and 22%, 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 Liquid Fuels Fund, the Luzerne County Flood Protection Authority or the Human Services Department, which are non major funds and 55%, 22 % and 17% respectively the assets, net assets and revenues of the reported governmental activities and 8%, 9% and 12% 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. Also, we did not audit the financial statements of the Internal Services Fund which is both a major fund and less than 1% respectively of assets, net assets and revenues of the reported governmental activities. 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.

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Board of County Commissioners
Wilkes-Barre, Pennsylvania

In addition, we did not audit the financial statements of the Pension Trust Fund, which is both a major fund and 96%, 100%, and 100% of the assets, net assets and revenues of the reported Fiduciary 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.

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 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 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

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

Board of County Commissioners
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 09-1, 09-2, 09-3, 09-4, 09-5, 09-6, 09-7, and 09-8 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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 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, Board of County Commissioners, 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
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Harrisburg, PA
February 23, 2011

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 COMPLIANCE SUPPLEMENT

Board of County Commissioners
County of Luzerne
Wilkes-Barre, Pennsylvania

Compliance

We have audited the compliance of COUNTY OF LUZERNE, PENNSYLVANIA with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of the COUNTY OF LUZERNE, PENNSYLVANIA'S major federal programs for the year ended December 31, 2009. 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 COUNTY OF LUZERNE, PENNSYLVANIA's management. Our responsibility is to express an opinion on 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards 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 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 COUNTY OF LUZERNE, PENNSYLVANIA's compliance with those requirements.

As described in items 09-7 and 09-8 in the accompanying Schedule of Findings and Questioned Costs, COUNTY OF LUZERNE, PENNSYLVANIA, did not comply with requirements regarding subrecipient monitoring and procurement, suspension and debarment that are applicable to its Emergency Food Assistance Cluster. Compliance with such requirements is necessary, in our opinion, for COUNTY OF LUZERNE, PENNSYLVANIA, to comply with the requirements applicable to that program.

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Zelenkofske Axelrod LLC

Board of County Commissioners
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 requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

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 certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 item 09-1, 09-2, 09-7, and 09-8 to be material weaknesses.

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.

Zelenkofske Axelrod LLC

Board of County Commissioners
Wilkes-Barre, Pennsylvania

This report is intended solely for the information and use of management, the Board of Commissioners, 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
February 23, 2011

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

Section I - Summary of Auditors' Findings

Financial Statements

Type of auditors' report issued: Qualified

Internal control over financial reporting:

- Material weaknesses identified? X Yes ___ No
- Significant deficiency(s) identified not considered to be material weaknesses? ___ Yes X 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 deficiency(s) identified not considered to be material weaknesses? ___ Yes X 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? X 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
Help America Vote Act Requirement Payments	90.401

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

Auditee qualified as low-risk auditee? ___ Yes X No

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009

Section II - Financial Statement Findings and Questioned Costs

Finding 09-1

Cash Disbursements Cycle

All major programs

Criteria: The County should have adequate controls in place to ensure expenditures are being properly approved by respected County employees.

Condition: During 2009, there was no evidence of approval of expenditures.

Cause: The previous Controller did not have adequate procedures for approving expenditures.

Effect: Cash disbursements are not being properly approved which could lead to result in a misappropriation of funds.

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

Recommendation: We recommend that the County implement procedures to ensure that all expenditures are approved.

Management's Response: We have implemented a policy that all items submitted for payment are delivered to the Controller's Office. Prior to approval, we review each item ensuring adequate documentation supports the expense and that proper authorization is provided by Management. In the event one of the criteria is incomplete or questionable, the department is contacted and payment is held until satisfactory documentation or justification is provided.

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009

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

Finding 09-2

Payroll Expenditures

All major programs

- Criteria: Payroll expenditures should be supported by approved timesheets.
- Condition: During 2009 employees timesheets were not approved by respective department heads.
- Cause: There are no procedures in place requiring timesheets to be approved to support the employees time.
- 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 employees time to be approved by all department heads.
- Management's Response: A policy was instituted that requires all departments to submit a copy of the payroll timesheets to the Controller. The documents are reviewed to determine if erroneous data exists, verify the timesheets are approved by the appropriate individual and additional documentation is requested if necessary to support the payments to employees.

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009

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

Finding 09-3

Fixed 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, but that there is lack of support to detail 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 fixed assets inventory and the related depreciation of these assets.
Effect:	We issued an adverse opinion on the fixed asset balances in the Governmental Activity financial statements.
Questioned Costs:	The amount of questioned costs, if any, is undeterminable.
Recommendation:	Management should develop and implement formal policies and procedures to ensure that fixed 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:	Fixed Asset Tracking will be performed by the Purchasing Department, 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, 2009

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

Finding 09-4

Related Party Transactions

Criteria: GAGAS requires auditor's 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 statement does not reflect the required related party disclosure.

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

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, 2009

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

Finding 09-5

Adult Probation Fund

Criteria:	GASB requires that all assets, liabilities, revenues, and expenditures are properly recorded on the books and records and are properly reported in the financial statements.
Condition:	The financial statement of the adult probation fund were not audited
Cause:	There is cash, receivables, and payable balances related to the fund which is not on the books and the balances can not be easily determined.
Effect:	The County's financial statement opinion was qualified for the Adult Probation Fund not being audited.
Questioned Costs:	The amount of questioned costs, if any, is undeterminable.
Recommendation:	The County should take the appropriate measures to ensure all assets, liabilities, revenues, and expenditures are proper recorded in the general ledger so as to be included in the County Audit.
Management's Response:	The County is currently assessing the procedures and will take the appropriate measures to record the assets, liabilities, revenues, and expenditures in the general ledger to correct this weakness.

COUNTY OF LUZERNE, PENNSYLVANIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009

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

Finding 09-6

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:	The amount of questioned costs, if any, is undeterminable.
Recommendation:	In the future, 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, 2009

Section III - Federal Awards' Findings and Questioned Costs

The following is a summary of a federal and Pennsylvania Department of Public Welfare finding. This finding is presented in detail in Section II – Financial Statement Findings.

<u>Finding Reference</u>	<u>Finding Summary</u>
<u>09-1</u>	<u>Cash Disbursements Cycle</u>
<u>09-2</u>	<u>Payroll Expenditures</u>
<u>09-7</u>	<u>Procurement, Suspension and Debarment</u>
	10.568/10.569 Emergency Food Administration Cluster
Criteria:	OMB A-133 Compliance Supplement Subpart 3 states, “non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred.”
Condition:	For the contract the County has with a subrecipient, we noted that the contract did not include a suspension/debarment clause.
Cause:	The County does not have controls in place to include a suspension/debarment clause in the contracts with the provider of service.
Effect:	The County is not in compliance with OMB A-133 procurement, suspension, & debarment requirements.
Questioned Costs:	The amount of questioned costs, if any, is undeterminable.
Recommendation:	The County should develop internal control procedures to ensure that all providers of services contracts contain a suspension and debarment clause to ensure compliance with federal regulations.
Management’s Response:	The County is developing internal control procedures and has addressed this weakness with the Lead Agency and they have agreed to ensure all providers of services contracts/bids will contain a suspension and debarment clause.

COUNTY OF LUZERNE, PENNSYLVANIA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2009

Section III - Federal Awards' Findings and Questioned Costs (Continued)

Finding 09-8

Subrecipient Monitoring

10.568/10.569 Emergency Food Administration Cluster

Criteria:	OMB A-133 Compliance Supplement Subpart 3 indicates that a pass-through entity is responsible for award identification and further states the entity is responsible "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 the name of the Federal awarding agency) and applicable compliance requirements."
	Office of Management and Budget Circular A-133 Subpart D Section .400 (d)(3) states that a pass through entity "must monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."
Condition:	The County did provide award information to the subrecipient of the program, CEO, and the audit report was not reviewed.
Cause:	The County does not have controls in place to provide required information to subrecipients or to obtain and review the audit report of its subrecipient.
Effect:	The County is not in compliance with the federal subrecipient monitoring requirements and there are no internal control policies in place for subrecipient monitoring.
Questioned Costs:	The amount of questioned costs, if any, is undeterminable.
Recommendation:	The County should implement internal control procedures to ensure that all subrecipients are provided required information and are adequately monitored, which would include the review of the audit report, to ensure compliance with federal regulations and .
Management's Response:	The County is assessing and developing internal control procedures to ensure subrecipients are provided required information and will be reviewing all subrecipient audit reports.

COUNTY OF LUZERNE, PENNSYLVANIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009

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>
Findings for the year ended December 31, 2008			
Row Office	08-1	Segregation of Duties	Resolved
Row Office	08-2	Reconciliation	Resolved
Row Office	08-3	Cash Control	Resolved
Row Office	08-4	Reconciliation	Resolved
Row Office	08-5	Cash Control	Resolved
Various	08-6	Payroll	Unresolved See 09-2
Row Office	08-7	Reconciliation	Resolved
911 Program	08-8	Act 78	Unresolved
Various	08-9	Grant Administration	Resolved
Various	08-10	Fixed Assets	Unresolved See 09-3
Various	08-11	Expenditures	Unresolved See 09-1
Various	08-12	Bids and Contracts	Resolved
Various	08-13	Journal Entries	Resolved
Various	08-14	Surplus Tax Sale Funds	Resolved
Various	08-15	Budget	Resolved
Various	08-16	Adult Probation Fund	Unresolved See 09-5
Various	08-17	Related Party	Unresolved See 09-4
Various	08-18	Conduit Debt	Unresolved See 09-6
Various	08-19	Federal Audit Clearinghouse	Resolved