

SINGLE AUDIT REPORTS
CHAMBERS COUNTY, TEXAS

For the Year Ended
December 31, 2008

CHAMBERS COUNTY, TEXAS

SINGLE AUDIT REPORTS

For the Year Ended December 31, 2008

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**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***

January 15, 2010

Honorable County Judge and
Members of Commissioners' Court of
Chambers County, Texas:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Chambers County, Texas (the "County"), as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, items 2008-1, and 2007-1 through 2007-04 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 through 2007-3 to be material weaknesses in internal control over financial reporting.

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 other matters that we reported to management of the County in a separate letter dated January 15, 2010.

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management 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.

Belt Harris & Associates, LLLP

Belt Harris & Associates, LLLP
Certified Public Accountants
Houston, Texas



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM, INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133,
AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

January 15, 2010

Honorable County Judge and
Members of Commissioners' Court of
Chambers County, Texas:

Compliance

We have audited the compliance of Chambers County, Texas (the "County") 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 its major federal programs for the year ended December 31, 2008. The County's major federal programs are identified in the summary of audit 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.

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 our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County 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, 2008.

Internal Control Over Compliance

The 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 the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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 response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Chambers County, Texas, for the year ended December 31, 2008, and have issued our report thereon dated January 15, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic 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 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, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management 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.

Belt Harris & Associates, LLP

Belt Harris & Associates, LLLP
Certified Public Accountants
Houston, Texas

CHAMBERS COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended December 31, 2008

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

2007-6. CORRECTIVE ACTION PLAN

Condition

The County did not create a corrective action plan in response to a finding identified in the prior year single audit related to the schedule of federal expenditures and grant reconciliation to the underlying records.

Effect

Identified deficiencies may continue to exist.

Cause

The County was not aware of their responsibility to prepare a corrective action plan.

Recommendation

The County should prepare a corrective action plan to address each audit finding included in the schedule of findings and questioned costs. Section 105 of OMB Circular A-133 defines corrective action as action taken by the County that:

- a. corrects identified deficiencies;
- b. produces recommended improvements; or
- c. demonstrates that audit findings are either invalid or do not warrant County action.

Current Status

The County has and will continue to create a corrective action plan in response to audit findings effective May 11, 2009.

CHAMBERS COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Chambers County, Texas.
2. Significant deficiencies in internal control were disclosed by the audit of the basic financial statements, some of which were considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant deficiencies in internal control over major federal award programs were not disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for the County are reported in part C of this schedule.
7. The program included as a major program is:

Disaster Grants - Public Assistance 97.036
8. The threshold for distinguishing Type A and B programs was \$537,085.
9. The County did not qualify as a low-risk auditee.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

CURRENT YEAR MATTERS

Significant Deficiencies:

2008-1. CAPITAL ASSETS

Finding

The County currently utilizes the capital asset module in their accounting software for capital asset additions, deletions, and the posting of depreciation expense. Although this system allows for accurate tracking of total assets and total accumulated depreciation, several discrepancies were found between the County's accounting system, the prior year schedule, and various current year reports.

Recommendation

The County should contact the software provider and explore the various capital asset reports that can be produced and utilized to consistently report accurate asset balances and accumulated depreciation. These reports should be regularly reconciled to each other and maintained on a separate schedule if warranted.

CHAMBERS COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended December 31, 2008

Management's Response

We concur with the recommendation.

MATTERS PREVIOUSLY REPORTED

Material Weaknesses:

2007-1. FINANCIAL STATEMENT PRESENTATION

Finding

The County has engaged a licensed certified public accounting firm to prepare and audit the County's annual financial report. The County ensures the quality of its annual financial report by engaging a qualified audit firm with particular expertise in governmental audits and reading a preliminary draft of the report. The County does not have specific controls in place to separately review the selection and application of accounting principles and resulting disclosures and presentations within the financial statement. Although it is common within the government sector, and most private companies, to rely on their audit firm for these services, an audit firm cannot be considered part of its client's internal control by professional standards currently in effect (SAS No. 112 effective year ends on or after December 15, 2006). Since some presentations and disclosures may be material to the financial statements, this weakness in internal control would be classified as material.

Recommendation

The County should continue to read its annual financial report and ensure the quality of both the document and the preparer. Changes in operation are not recommended.

Management's Response

We concur with the recommendation.

2007-2. ACCOUNTING RECORDS AND ADJUSTMENTS

Finding

The County reviews its accounting information and compares the information to their knowledge of historical events. From time to time, the auditor recommends adjustments to these records, as well as proposes other adjustments needed for preparing full accrual statements in compliance with GASB 34 which are only needed at year end. Although it is common within the government sector, and most private companies, to rely on their audit firm for these services, an audit firm cannot be considered part of its client's internal control by professional standards currently in effect (SAS No. 112 effective year ends on or after December 15, 2006). Since some adjustments and calculations made by the auditor may be material to the financial statements, this weakness in internal control would be classified as material.

Recommendation

The County should continue to read its annual financial report and ensure the quality of both the document and the preparer. Changes in operation are not recommended.

CHAMBERS COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended December 31, 2008

Management's Response

We concur with the recommendation.

2007-3. SEGREGATION OF DUTIES

Finding

In many financial areas, including administration of the County's federal award programs, the County lacks segregation of duties. Segregation of duties refers to assigning tasks among personnel so that no one person handles substantially all aspects of a transaction. The extent to which the County can segregate duties is limited based on the number of personnel, their skill set and work load, and the organizational structure of the County. There are inherent inefficiencies with full segregation of duties and inherent risks with the lack of segregation of duties. The cost versus benefits for both should be considered.

Recommendation

The County should continue to re-evaluate its segregation of duties and when possible assign tasks to strengthen controls.

Management's Response

We concur with the recommendation.

Significant Deficiencies:

2007-4. INTERNAL CONTROL ASSESSMENT, COMMUNICATION, AND MONITORING

Finding

Like many local governments of its size and complexity, the County does not have a formal process for assessing risk associated with key controls related to its financial operations and fraud. In addition, while a number of processes are used to communicate internal controls (such as formal actions taken by the Commissioners' Court, policies and procedures, memos, emails, website and controlling legislation), a single source, such as a complete and up to date policy and procedures manual, does not exist. Likewise, the entity does not have a formal process for monitoring its internal control.

Recommendation

The County should continue to monitor the need for more formally established processes to assess risk, communicate controls, and monitor controls. The County should consider having an annual workshop with an audit committee designated by the Commissioners' Court and key personnel to specifically discuss risk and key controls to mitigate those risks. The County's assessment of its risk and evaluation of the effectiveness of controls can then be utilized to determine the sufficiency of the level of documentation.

Management's Response

We concur with the recommendation.

CHAMBERS COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended December 31, 2008

C. FINDINGS - FEDERAL AUDIT

None.

CHAMBERS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2008 (page 1 of 3)

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Grant/Contract Number	CFDA Number	Federal Expenditures
DEPARTMENT OF AGRICULTURE			
Passed through Texas Department of Health:			
Special Supplemental Food Program for Women, Infants, and Children/2008	7460000361-2008	10.557	\$ 86,244
Special Supplemental Food Program for Women, Infants, and Children/2009	7460000361-2009	10.557	29,826
TOTAL DEPARTMENT OF AGRICULTURE			116,070
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Texas Department of Health:			
Preventative Health and Health Services Grant/2008	7460000361-2008	93.991	12,152
Preventative Health and Health Services Grant/2009	7460000361-2009	93.991	6,076
Subtotal for CFDA Number			18,228
Passed through Brazos Valley Community Action Agency (BVCAA):			
Community Services Block Grant/Jan. - Dec. 2008	N/A	93.569	23,270
Community Services Block Grant/Oct. - Dec. 2008 (IKE)	N/A	93.569	5,000
Subtotal for CFDA Number			28,270
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			46,498
DEPARTMENT OF HOMELAND SECURITY			
Passed through Texas Department of Public Safety's DEM:			
State Homeland Security Program 2007 EMPG	07TX-EMPG-0377	97.042	12,115
State Homeland Security Program 2008 EMPG	08TX-EMPG-1044	97.042	24,376
Subtotal for CFDA Number			36,491
State Homeland Security Program 2006 LETPP	2006LETPP-48071	97.074	2,019
State Homeland Security Program 2007 LETPP	2007LETPP-48071	97.074	65,584
Subtotal for CFDA Number			67,603
State Homeland Security Program 2006 CCP	2006CCP-48071	97.053	823
State Homeland Security Program 2007 CCP	2007CPP-48071	97.053	1,237
Subtotal for CFDA Number			2,060

CHAMBERS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2008 (page 2 of 3)

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Grant/Contract Number	CFDA Number	Federal Expenditures
Passed through Governor's Division of Emergency Management: Buffer Zone Protection Program 2007	N/A	97.078	74,319
TOTAL DEPARTMENT OF HOMELAND SECURITY			180,473
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Texas Department of Agriculture Office of Rural Community Affairs: Community Development Block Grant - SEAPAC	724002	14.228	27,148
2006 CDBG Disaster Recovery Grant	DRS060011	14.255	225,000
Passed through Texas Department of Housing and Community Affairs: HOME 2006 Hurricane Disaster Project	1000765	14.239	119,753
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			371,901
DEPARTMENT OF INTERIOR			
Passed through Texas Parks & Wildlife Commission: Sport Fish & Restoration, Boating Access	N/A	15.605	43,627
Passed through Minerals Management Service CIAP Project - Texas Coastal Stewards of Tomorrow	74204348	15.426	65,612
TOTAL DEPARTMENT OF INTERIOR			109,239
FEDERAL EMERGENCY MANAGEMENT AGENCY			
Passed through Texas Department of Public Safety's Division of Emergency Management: Disaster Grants - Public Assistance	FEMA 1791 DR TX	97.036	16,851,132
Passed through Texas Department of Transportation: Emergency Food and Shelter/2008 Phase 26	793800-001	97.024	15,527
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY			16,866,659
DEPARTMENT OF TRANSPORTATION / FEDERAL AVIATION ADMINISTRATION			
Passed through Texas Department of Transportation: Routine Airport Maintenance Program - Anahuac 2008	M820ANAHC	20.106	2,010
Routine Airport Maintenance Program - Winnie 2008	M820WNNIE	20.106	355
TOTAL DEPARTMENT OF TRANSPORTATION /FEDERAL AVIATION ADMINISTRATION			2,365

CHAMBERS COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2008 (page 3 of 3)

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Grant/Contract Number	CFDA Number	Federal Expenditures
DEPARTMENT OF TRANSPORTATION			
Passed through Texas Department of Transportation:			
Texas Traffic Safety Program Grant (2008 STEP-OP)	(08)05-05-A1-AA	20.600	17,115
Texas Traffic Safety Program Grant (2009 STEP-OP)	(09)05-05-A1-AA	20.600	2,267
TOTAL DEPARTMENT OF TRANSPORTATION			<u>19,382</u>
U.S. ELECTIONS ASSISTANCE COMMISSION			
Passed through Texas Secretary of State / Elections Division:			
General HAVA Compliance	77821	90.401	133,450
Voting System Accessibility	77821	90.401	40,000
Subtotal for CFDA Number			<u>173,450</u>
Polling Place Accessibility	77821	93.617	1,486
TOTAL U.S. ELECTIONS ASSISTANCE COMMISSION			<u>174,936</u>
GENERAL SERVICES ADMINISTRATION			
Passed through Texas General Services Commission:			
Donation of Federal Surplus Personal Property	N/A	39.003	15,300
TOTAL FEDERAL ASSISTANCE			<u><u>\$ 17,902,823</u></u>

CHAMBERS COUNTY, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2008

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Chambers County, Texas 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 basic financial statements.