BONNER COUNTY, IDAHO
SANDPOINT, IDAHO

Single Audit Report

September 30, 2004

Bonner County, Idaho
Sandpoint, Idaho

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AUDITORS' SECTION

LE MASTER & DANIELS PLLC

ACCOUNTING

AND

CONSULTING

SERVICES

MEMBER OF

THE

McGLADREY

NETWORK

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

Board of County Commissioners
Bonner County, Idaho
Sandpoint, Idaho

We have audited the financial statements of Bonner County, Idaho (the County) as of and for the year ended September 30, 2004, and have issued our report thereon dated November 23, 2004. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of audit findings as items 04-1 through 04-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 04-3 to be a material weaknesses. We also noted other matters involving the internal control over financial reporting which we have reported to management of the County in a separate letter dated November 23, 2004.

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

LeMasters & Daniels PLLC

Spokane, Washington
November 23, 2004

LE MASTER & DANIELS PLLC

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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

Board of County Commissioners
Bonner County, Idaho
Sandpoint, Idaho

Compliance

We have audited the compliance of Bonner County, Idaho (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 September 30, 2004. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of audit findings. 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 Nonprofit 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 September 30, 2004.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with 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 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

LeMaster & Daniels PLLC

Spokane, Washington
November 23, 2004

Bonner County, Idaho
Sandpoint, Idaho

Schedule of Audit Findings — Year Ended September 30, 2004

Section I — Summary of Auditors' Results

FINANCIAL STATEMENTS:

Type of auditors' report issued:	Unqualified			
Internal control over financial reporting:				
• Material weakness(es) identified?	X	yes		no
• Reportable condition(s) identified that are not considered to be material weakness(es)?	X	yes		none reported
Noncompliance material to financial statements noted?		yes	X	no

FEDERAL AWARDS:

Internal control over major programs:				
• Material weakness(es) identified?		yes	X	no
• Reportable condition(s) identified that are not considered to be material weakness(es)?		yes	X	no
Type of auditors' report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?		yes	X	no

Section I — Summary of Auditors' Results (continued)

FEDERAL AWARDS (continued):

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
20.106	Department of Transportation – Airport Improvement Program
16.710	Department of Justice – COPS Technology Program

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

Auditee qualified as low-risk auditee? _____ yes ___X___ no

Section II — Financial Statement Findings

FINDING 04-1 – INVOICE APPROVAL AND PREPARATION OF CLAIM FORM APPROVAL DOCUMENTATION

Criteria:

County policy dictates that all invoices have an approval form attached with two signatures authorizing the payment of the invoice.

Condition:

Reportable condition

We noted during testing of cash disbursements that the supporting invoice worksheet did not have an authorization signature or a claim form authorization attached.

Effect:

Without a proper approval process, the County cannot effectively control the purchases and cash disbursements.

Recommendation:

The accounts payable department should verify that the proper approval has been given by the preparation of the invoice approval form and the two signatures thereon. If the invoice does not have the proper authorization, then the invoice should be returned to the appropriate department for signature and approval.

Section II — Financial Statement Findings (continued)

FINDING 04-2 – SUPPORTING INVOICE DOCUMENTATION

Criteria:

County policy dictates that all invoices be reviewed and reconciled to supporting documentation to ensure that all payments made are valid claims against the County.

Condition:

Reportable condition

We noted during testing of cash disbursements that the supporting detail for an invoice did not support the amount of payment made pursuant to the check.

Effect:

Without a proper review and reconciliation of the supporting detail, the County is not maintaining proper control over the custody and recording of the assets and the ability to misuse or misappropriate funds is unnecessarily high.

Recommendation:

The accounts payable department should verify that all invoice payments are reconciled to the supporting detail that supports the payment of the check amount.

Section II — Financial Statement Findings (continued)

FINDING 04-3 – FINANCIAL ACCOUNTING AND REPORTING

Criteria:

As required by Statements on Standards issued by the Governmental Accounting Standards Board, maintaining the entity's financial records is the responsibility of management.

Condition:

Material weakness

The County does not record and account for all of the County's financial statement accounts within the financial records of the County. The tax levy budget, long-term debt, and LID (Local Improvement District) records are separately maintained and have not been recorded on the books of the County.

Effect:

The County lacks assurance it is accounting for all of its assets and liabilities, that the assets are not being misappropriated, and that a full overview of the County's financial position is provided to management on an interim basis.

Recommendation:

The County is required to implement the steps necessary to ensure that all of the financial information is recorded in the financial records of the County.

Section III — Federal Award Findings

No matters were reported.

AUDITEE'S SECTION

Bonner County, Idaho
Sandpoint, Idaho

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Award Number	Federal Expenditures
U.S. Department of Justice:			
Domestic Violence	16.589	N/A	$ 67,925
Local Law Enforcement Block Grant	16.592	2002-LB-BX-1618	15,531
Kinderhaven Formula Grant	16.540	03-JJ11-01	16,419
COPS Technology Grant	16.710	2002CKWX0049	303,148
Drug Task Force	16.579	03-BYRN-64-TF-03	35,814
Drug Task Force	16.579	04-BYRN-64-TF-04	6,715
Drug Court	16.579	02-BYRN-64-DC-01	35,083
Bullet Proof Vest Grant	Unavailable	XTX3A-1	3,830
JAIBG S.R.O.	16.523	00-JA11-02	32,467
Total U.S. Department of Justice			516,932
U.S. Department of Transportation:			
Passed through State of Idaho Department of Parks and Recreation:			
Federal Boat Safety	20.005	GBS-41-091-01	32,251
Passed through Idaho Transportation Department:			
Probation DUI	20.600	SD3J804	43,245
Federal Aviation Administration	20.106	N/A	801,544
Total U.S. Department of Transportation			877,040

See accompanying independent auditors' report.

Bonner County, Idaho
Sandpoint, Idaho

Schedule of Expenditures of Federal Awards (Continued)

Year Ended September 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Award Number	Federal Expenditures
Department of the Interior:			
EMS Fire Assistance Grant	15.228	DLA020423	$ 65,529
Federal Emergency Management Agency:			
Passed through Idaho Military Division:			
Civil Defense	83.552	EMS-2002-GR-3091	17,081
Housing and Urban Development:			
Sandpoint Senior Center	14.228	ICDBG-03-I-03-SR	119,402
Department of Agriculture:			
Stevens Fire Grant	15.228	03-DG11010000-049	8,195
National Fire Plan	15.228	04SFA 11	23,534
Total Department of Agriculture			31,729
Department of Health and Human Services:			
HAVA Grant	Unavailable	N/A	1,490
Total expenditures of federal awards			$1,629,203

Note 1 — Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bonner County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Amounts presented in this schedule agree with the amounts presented in, or used in, the preparation of the financial statements.

See accompanying independent auditors' report.

FINDING 04-1 – INVOICE APPROVAL AND PREPARATION OF CLAIM FORM APPROVAL DOCUMENTATION
CONTACT PERSON: MARIE SCOTT
COMMENT PREPARED BY: MARIE SCOTT

Based on the finding, the County will implement procedures to ensure that all invoices have a completed claim form attached to the invoice with two signatures.

FINDING 04-2 – SUPPORTING INVOICE DOCUMENTATION
CONTACT PERSON: MARIE SCOTT
COMMENT PREPARED BY: MARIE SCOTT

The County will implement a review process whereby all claims will be reviewed after preparation to ensure that all supporting documentation agrees to claim form.

FINDING 04-3 – FINANCIAL ACCOUNTING AND REPORTING
CONTACT PERSON: MARIE SCOTT
COMMENT PREPARED BY: MARIE SCOTT

The County is in the process of training staff and implementing the procedures necessary to ensure that all of the financial information is recorded in the financial statements of the County.

Bonner County, Idaho
Sandpoint, Idaho

Summary Schedule of Prior Audit Findings — Year Ended September 30, 2004

Findings From Year Ended September 30, 2003:

Finding 03-1: Personnel File Records Documentation

The finding was a reportable condition that the County was not maintaining supporting documentation of employee pay rates for the fixed percentage increased during fiscal year 2002/2003.

Status:

The County has implemented policies and procedures to include supporting documentation of employee pay rates in each individual's employee file.

Finding 03-2: Cash Account Custody and Reporting

The finding was reported as a material weakness stating that monies from the forfeitures received by the Drug Task Force are not deposited into the County bank account and recorded on the County's books.

Status:

Pursuant to a Idaho State statute, the Drug Task Force monies are not required to be deposited into the County bank account and recorded on the County's books.

Finding 03-3: Lease Authorization and Approval

The finding was a reportable condition that the County Treasurer was not reviewing and approving all leases.

Status:

The County has implemented procedures to ensure that all leases are reviewed and approved by the Treasurer.

Finding 03-4: Financial Accounting and Reporting

The finding was reported as a material weakness stating that the County does not record and account for all of the County's financial statement accounts in the financial records of the County. The tax levy budget, long-term debt, pension, and LID (Local Improvement District) have not been recorded

Status:

Repeated as item 04-3 in the current year Schedule of Audit Findings.