

**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards***

Members of the County Council
New Castle County, Delaware

We have audited the financial statements of New Castle County, Delaware as of and for the year ended June 30, 2006, and have issued our report thereon dated October 13, 2006. 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 New Castle County, Delaware'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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

We noted other matters in the internal control over financial reporting that we reported to management of New Castle County, Delaware in a separate letter dated October 13, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Castle County, Delaware'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*.

This report is intended solely for the information and use of the audit committee, 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.

Clifton Gunderson LLP

Baltimore, Maryland
October 13, 2006

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Members of the County Council
New Castle County, Delaware

Compliance

We have audited the compliance of New Castle County, Delaware 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 June 30, 2006. New Castle County, Delaware'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 New Castle County, Delaware's management. Our responsibility is to express an opinion on New Castle County, Delaware'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 New Castle County, Delaware'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 on New Castle County, Delaware's compliance with those requirements.

In our opinion, New Castle County, Delaware 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 June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2006C-1 and 2006C-2.

Internal Control Over Compliance

The management of New Castle County, Delaware 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 New Castle County, Delaware'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 caused by error or fraud 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 the audit committee, 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.

Clifton Henderson LLP

Baltimore, Maryland
October 13, 2006

NEW CASTLE COUNTY, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2006

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Reportable condition(s) identified that are not considered to be material weaknesses	_____	Yes	<u> X </u>	None Reported
Noncompliance material to financial statements noted?	_____	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Reportable condition(s) identified that are not considered to be material weakness	_____	Yes	<u> X </u>	None Reported

Type of auditor's 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?	<u> X </u>	Yes	_____	No
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Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number(s)
Section 8 Housing Choice Vouchers	14.871
Public Safety Partnership and Community Policing Grants	16.710
Dollar threshold used to distinguish between type A and type B programs	<u>\$667,243</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes _____ No

NEW CASTLE COUNTY, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2006

II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

1. Reportable Conditions in Internal Control

None

III. Findings and Questioned Costs for Federal Awards

1. Reportable Conditions in Internal Control Findings

None

2. Compliance Findings

Finding 2006C-1: Section 8 Housing Choice Voucher, CFDA #14.871

Condition: During our testing of HQS enforcement special test compliance requirements, we noted instances of noncompliance in 3 of the 30 inspections reviewed. Two inspections tested did not properly document the required correction period for the failed annual inspection. Three inspections tested did not reinspect the property within the proper period. Two inspections tested did not document whether New Castle County was required to abate Housing Assistance Payment's (HAP's) for the failed inspections.

Criteria: 24CFR 982.404 states that "The Public Housing Authority (PHA) must not make any housing assistance payments for a dwelling unit that fails to meet the HQS, unless the owner corrects the defect within the period specified by the PHA and the PHA verifies the correction." New Castle County's HCVP Administrative Plan shows that a faulty smoke detector or a lack of hot water is considered 24-hour emergency violations.

Cause: In the cases noted above, it appears that the inspectors did not report the emergency violations to the appropriate staff for tracking and follow-up purposes.

Effect: These findings caused New Castle County to overpay the landlord by \$4,065 during periods when their units did not meet Housing Quality Standards.

Questioned Costs: \$4,065

Recommendation: We recommend that New Castle County reinforce policies that require inspectors to report emergency violations promptly to the appropriate staff for follow-up.

NEW CASTLE COUNTY, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2006

Management Response: CDH reviewed the case files from this review. After consultation with the inspectors and staff, NCCHA has implemented two additional measures to avoid this deficiency in the future.

- 1) Inspectors are now required to manually complete a daily summary worksheet to include notations for 24-hour emergency violations. This worksheet shall be submitted to support staff for review and follow up.
- 2) An additional review staff person will receive a copy of the daily summary worksheet. That staff person will serve as an additional check to assure a 24-hour violation is addressed. One supervisory staff person shall coordinate the compliance requirements. It should also be noted, NCCHA is in the final phase of reviewing for purchase a new computer software system which is expected to enhance our capabilities in automatically monitoring this requirement.

Finding 2006C-2: Section 8 Housing Choice Voucher, CFDA #14.871

Condition: During our testing of eligibility and special test compliance requirements, we noted instances of noncompliance in 2 of the 30 files tested. One tenant file tested did not have the interim reexamination processed in a timely manner following a decrease in tenant income. One tenant file tested did not have the HUD-50058 uploaded properly to HUD's PIC website.

Criteria: 24CFR 982.516 states that "The PHA must make the interim determination within a reasonable time after the family request." In addition, Chapter 12 of the New Castle County HCVP Administrative Plan shows that New Castle County considers decreases in tenant rent due to an interim certification effective on the first of the month following that in which the change is reported and verified. 24CFR 908 requires Housing Agencies (HAs) that operate...Rental Voucher programs to electronically submit certain data to HUD for those programs. This electronically submitted data is required for HUD Forms HUD-50058...."

Cause: In the first case noted above, the staff acknowledged that the client brought in the appropriate paperwork in a timely manner, but the paperwork was misplaced by staff. The second case noted above was an oversight on the part of staff.

Effect: In the first case noted above, the housing specialist processed the change more than 30 days following notification by the tenant. This caused New Castle County to underpay the landlord for two months. They subsequently paid the difference and late fees to the landlord. The second case noted above is only a reporting compliance issue.

NEW CASTLE COUNTY, DELAWARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2006

Questioned Costs: None

Recommendation: We recommend that New Castle County ensure that all annual reexaminations and interim reexaminations are processed in a timely manner. It does not appear that this finding is a typical occurrence.

Management Response: CDH staff is aware that annual reexaminations and interim examinations must be processed in a timely manner. CDH believes, as stated in your findings, “that this is not a typical occurrence”. The importance of the monitoring, by the case worker, of all client communication both written and oral has been strongly communicated with staff. HUD “PIC” information is transmitted every 14 - 17 days. The transmittals are reviewed for acceptance by HUD. Staff also reviews the HUD “AD Hoc” reporting for any delinquencies.

NEW CASTLE COUNTY, DELAWARE
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2006

Reference Number: 01-2005

Program: 16.007 / 97.004 / 97.042 / 97.067 – Homeland Security Grant

Type of Finding: Reportable Condition

Compliance Requirement: Equipment and Real Property Management

Background: New Castle County received donated emergency equipment from the Department of Homeland Security through Delaware Emergency Management Agency (DEMA). This equipment was distributed by DEMA to the Police, Emergency Medical Service (EMS) and Emergency Management Agency (EMA).

Criteria: The County is responsible for maintaining internal control over federal programs that provide reasonable assurance that the County is managing federal awards in compliance with laws, regulations, and the provisions of grant agreements that could have a material effect on each of its Federal programs. In addition, the County is required to ensure that equipment be used in the program for which it was acquired. Equipment records should be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition: The County relied on the DEMA listings of donated equipment to record the federal award. The County did not reconcile the DEMA listings to the equipment received by the County Police, EMS and EMA or properly record the equipment on the County's Fixed Asset Accounting Records.

Cause: There is not one official responsible for reconciling DEMA's equipment records to the equipment received by the County.

Recommendation: It is recommended that the County select one section/agency to oversee the receipt of donated emergency equipment and report an accurate listing of equipment received to the Office of Finance and determine what, if any, equipment should be recorded in the Fixed Asset records of the County.

Agency Contact Name: Department of Police – Guy Sapp

Agency Contact Phone Number: (302) 395-8019

Correction Action Plan: The Department of Police will utilize the Emergency Management Agency (EMA) to oversee receipt of all donated equipment. This will provide a total coordinated approach to receiving and recording the donated equipment. This agency will be responsible for the following: picking up the equipment from DEMA, verifying the equipment to the shipping invoice, making any corrections to the invoice, notifying DEMA of any

NEW CASTLE COUNTY, DELAWARE
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2006

discrepancies, forwarding two copies of the invoice to the Office of Finance for the recording of revenue and expenditures to the grants, and for the recording of any capitalized fixed assets. The agency will also maintain a master detailed list of all the equipment received through the Homeland Security Grants, with detail by grant and grant fiscal year, including the CFDA numbers.

Anticipated Completion Date: December 31, 2005

Status: Resolved