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MANAGEMENT LETTER

Honorable Members of the
Board of County Commissioners
Holmes County, Florida

We have audited the financial statements of Holmes County, Florida (the County), as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated March 27, 2009.

We conducted our audit 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*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting And Compliance and Other Matters, Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and State Project and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 27, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedules:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report except as noted below under the heading Prior Year Findings and Recommendations.

Prior Year Findings and Recommendations

Item 01-2 Encumbrance Accounting (Purchase Order System) – The County's accounting software does not provide an electronic means to record and account for encumbrances. Discussions with management indicated that an encumbrance module for the County's existing software package is available but has not been acquired. An encumbrance package would allow greater control in monitoring budget compliance and expenditures. The present system is extremely inefficient and requires an inordinate amount of staff time when accounting for outstanding purchase orders. No corrective action was taken during 2008.

Item 06-1 Capital Assets/Depreciation - The current module used to account for capital assets and depreciation of such assets does not provide all needed reports. The data has to be pulled into Excel and formatted to allow various sorts on the data. Additional fields are added in Excel and have to be re-entered each year to allow for sorting and totaling in the different groupings needed for financial statement presentation. The process of adding

these fields each year adds excess time as well as creating an opportunity for errors due to the manual process of entering the information. No corrective action was taken during 2008.

07-05 Inventory – The County does not maintain a usage or perpetual inventory system for parts and supplies held in the County shop. In addition, there is no documented system for a periodic physical count. Although the inventory is not expected to be material to the overall financial position of the County, having adequate inventory controls would provide more accountability for the related expenditures and to safeguard assets. Periodic physical counts should be made and reconciled with inventory records to detect pilferage or loss. No corrective action was taken in 2008.

07-06 Taxable Fringe Benefits - In the prior year, we noted that the County did not have certain policies and procedures in place to ensure compliance with Internal Revenue Service (IRS) taxable fringe benefits rules for such items as Cell Phone Usage and Vehicles. Such policies were put into place in January, 2009.

Section 10.554(1)(i)2. Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined the County complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we make the following recommendations.

08-04 Building Department Fees – We selected a sample of 20 permits with fees totaling \$2,011 and recomputed those fees based upon supporting documentation and the approved fee schedule. Of the 20 permits tested, 6 totaling \$302 were issued with incomplete supporting documentation. Permits issued without proper documentation could result in improper fees being assessed and collected. We recommend the County implement the necessary procedures to ensure that building permits issued are supported with the appropriate documentation.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contract or grant agreements, or abuse that have occurred, or are likely to have occurred and (2) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the

attention of, the auditor. In connection with our audit, we did not have any such findings. Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes and identification of the specific condition(s) met. In connection with our audit, we determined that the County did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the County for the fiscal year ended September 30, 2008, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2008. In connection with audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7) Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the Holmes County, Florida Board of County Commissioners, management, the Florida Auditor General, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

Revised Management letter replacing report originally dated March 27, 2009

May 6, 2009