

DOUGLAS COUNTY, KANSAS
OMB *CIRCULAR A-133*, SINGLE AUDIT REPORT
YEAR ENDED DECEMBER 31, 2012
WITH
INDEPENDENT AUDITOR'S REPORT

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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*

Board of County Commissioners
Douglas County, Kansas

We have audited, in accordance with the 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 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Douglas County, Kansas, the Douglas County Extension Council, the Lawrence-Douglas County Health Department, and the Douglas County Free Fair (collectively "the County") as of and for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated July 11, 2013. The County prepared the regulatory basis financial statement to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2, 2012-3, 2012-4 and 2012-5 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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*.

The County's Responses to Findings

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

July 11, 2013
Wichita, Kansas

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
OMB CIRCULAR A-133

Board of County Commissioners
Douglas County, Kansas

Report on Compliance for Each Major Federal Program

We have audited the Douglas County, Kansas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, Douglas County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal programs 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 the County's internal control over compliance.

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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2012-6 that we consider to be a significant deficiency.

The County's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Douglas County, Kansas, the Douglas County Extension Council, the Lawrence-Douglas County Health Department, and the Douglas County Free Fair (collectively "the County") as of and for the year ended, December 31, 2012, and the related notes to the financial statement, which collectively comprise the County's regulatory basis financial statement. We have issued our report thereon dated July 11, 2013, which contained an unmodified opinion on the financial statement. The County prepared this regulatory basis financial statement to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. 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 financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statement as a whole.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

July 11, 2013
Wichita, Kansas

DOUGLAS COUNTY, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

SECTION I – SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:

Unmodified –
Regulatory Basis

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported
- Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs:

See below

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

Yes No

Identification of major programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM	MAJOR PROGRAM OPINION
14.228	CDBG Small Cities and Counties Rural Development	Unmodified

DOUGLAS COUNTY, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

SECTION I – SUMMARY OF AUDITOR’S RESULTS (Continued)

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

Auditee qualified as low-risk auditee? X Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2012-1 Douglas County Segregation of Duties (Significant Deficiency):

Condition: There is a lack of adequate segregation of duties in the payroll function and in the posting of journal entries.

Cause: The payroll clerk has access to add employees, modify master file information, process payroll and post to the general ledger. The clerk also has access to blank checks and the signature stamp software. Additionally, there is no reconciliation currently performed between the data in the payroll system and what is posted to the general ledger. Journal entries can be created and posted to the general ledger by the same person. There is no review or approval process of journal entries made, prior to the time they are released.

Effect: A lack of controls and procedures could result in a misstatement to the financial statements.

Recommendation: We recommend that human resources set up and maintain employee master records and implement an authorization or approval process for changes made to the payroll system through review of the audit tables created when changes are made. We also recommend that there be a separation of the creating function and the posting function for journal entries within the system, or at a minimum, a procedure for conducting a secondary review of journal entries to ensure that undetected manipulation of data on the system does not occur.

Management’s Response (unaudited): Leadership in Accounts Payable is currently training staff to segregate duties more effectively. The limitations of the current financial system present obstacles to segregate duties, but staff is in the process of modifying current practices and procedures to address the issue.

Finding 2012-2 Lawrence-Douglas County Health Department Segregation of Duties (Significant Deficiency):

Condition: There is a lack of adequate segregation of duties and or controls missing over the accounting processes.

Cause: The Director and Director of Administrative Services have access to all areas of CYMA and the Accountant has access to most areas of CYMA. The Accountant processes accounts payable and payroll, with complete access to master files, which would allow for changes in employee and vendor information. The Accountant also has access to enter cash receipts and adjust accounts receivable balances. The Director of Administrative Services and the Accountant can also post journal entries.

DOUGLAS COUNTY, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Effect: A lack of controls and procedures could result in a misstatement to the financial statements.

Recommendation: We recommend that policies and procedures be implemented for segregation of certain functions within the accounts payable and payroll processes to avoid conflicts between incompatible functions. We also recommend that there be a separation of the creating function and the posting function for journal entries within the system, or at a minimum, a procedure for conducting a secondary review of journal entries to ensure that undetected manipulation of data on the system does not occur.

Management's Response (unaudited): We acknowledge that the Director has access to run reports in CYMA, the Director of Administrative Services has access to all functions in CYMA and the Accountant has access to most areas of CYMA, our fund accounting software. CYMA has an audit trail and can track changes and limit access to areas by user. In CYMA, the Accountant does not have access to change funds or bank account information within the accounts payable or payroll modules. The Accountant does not have access to the bank reconciliation module within CYMA and cannot create after the fact journal entries within the General Ledger module.

The Accountant does create and post most of the journal entries and the Director of Administrative Services reviews those journal entries throughout the month and during the month end and bank reconciliation processes. We have asked the auditors to define this review process further (i.e. a sampling each month or so many each month) so that this would not be an issue for future audits. Without additional staffing, these functions are difficult to segregate further.

Finding 2012-3 Financial Statement Preparation (Significant Deficiency):

Condition: There is a lack of controls and/or policies and procedures related to encumbrances/commitments.

Cause: The County does not have a formal purchase order system to ensure that all purchase commitments are recorded at year end.

Effect: A lack of controls and procedures could result in a misstatement to the financial statements.

Recommendation: We recommend that management implement a systematic method of gathering purchase commitments.

Management's Response (unaudited): We concur with this finding. A new financial system, as recommended, will allow staff to systematically gather purchase commitments and establish controls and mechanisms for monitoring accuracy and compliance. In 2011, Staff worked with the Auditor as a part of a separate consulting project to develop new year end closing procedures and systems. While this improved practice doesn't completely address the concerns expressed in the Finding, it has accomplished what is possible until a new financial system is implemented.

Finding 2012-4 Investments (Significant Deficiency):

Condition: During testing of investments, we noted certain variances between balances confirmed by the banks and what was recorded by the County. The variances pertained to how investment interest and premiums were being recorded. Throughout the year as various investment transactions were recorded, these items were not being recorded the same way between the day sheet and the Treasurer's accounts, resulting in variances between the two amounts.

DOUGLAS COUNTY, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Cause: The County does not reconcile the investments to the monthly statements properly, with primary variances resulting from improper recognition of interest when investments are purchased with a premium or accrued interest purchased. When an investment matures, the County often only removes the par value of the maturity, not the full amount of the original cost.

Effect: A lack of controls and procedures could result in a misstatement to the financial statements.

Recommendation: We recommend that management reconcile these amounts on a regular basis to ensure proper recording.

Management's Response: We concur with the finding. Processes have been changed and updated. Upon completion of the monthly day sheet and receipt of month-end bank statements, the County Treasurer and the Account Clerk IV shall compare their independent reporting of interest proceeds and total cash investments and reconcile to the banks' reported balances.

Finding 2012-5 Tax System (Significant Deficiency):

Condition: There is a lack of segregation of duties in the tax system.

Cause: During testing of access controls in Manatron, we noted that there is an "Administrator" function that allows users assigned to this role to have complete access to the system and there are multiple individuals who have been assigned this role.

Effect: A lack of controls and procedures could result in a misstatement to the financial statements.

Recommendation: We recommend that management limit the "administrator" role to only those individuals deemed necessary.

Management's Response: Nine people have Administrator Status in GRM; four in IT, four in the Treasurer's Office, and one in the Clerk's Office. Each person has a unique username and GRM logs any changes to the database by user. Administrator access is required to adjust Homestead payments, Distributions, and Commission orders. If the adjustments are made to the tax roll at a lower level than Administrator, GRM doesn't finalize them, leaving the tax roll out of balance and preventing it from moving forward. Security within GRM is extremely complex and on occasion support issues have been resolved with changes to the security settings. The Turnaround time for resolving support issues through Thomson Reuters is improving, but still requires a substantial time delay.

DOUGLAS COUNTY, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2012-6 - Significant Deficiency

Federal Program: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA No. 14.228), United States Department of Housing and Urban Development, Passed through Kansas Department of Commerce, Grant award number 11-1N-R02.

Compliance Requirement: Procurement

Condition: One procurement contract was selected for testing and that contract was not approved by the Board of Commissioners, which is required by the County's Procurement Policy for all procurements greater than \$20,000.

Cause: The County believed that since the building was not purchased for use by the County itself but as an incentive to a company in the community, no such approval was required for the actual contract with the construction company. The Board of Commissioners had approved the overall project, which included discussion of how to fund the project, and were aware that a construction company would need to be hired; however the actual contract was not approved by the Board of Commissioners.

Criteria: 24 CFR 85, where HUD has codified A-102 Common Rule, states that "Grantees and sub grantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law."

Effect: Without the proper approval by the Board of Commissioners, a contract could be entered into that could contain unallowable activities for the County.

Questioned Costs: None were noted.

Recommendation: We recommend that the County follow its procurement policy and obtain approval from the Board of Commissioners for future procurements over the required threshold.

Management's Response (unaudited): The County acknowledges the condition and cause of the finding and regrets the oversight. Future grant related procurements will be consistent with the County's purchasing procedures.

DOUGLAS COUNTY, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

		Summary of Findings	Corrective Action	Status
2011	2011-1	Payroll – There is a lack of adequate segregation of duties in the payroll function and posting of journal entries.	The County will review the controls, policies and procedures currently in place to assess the ability of existing staff and systems to perform recommended segregation of duties.	Ongoing. See Finding 2012-1.
2011	2011-2	Lawrence-Douglas County Health Department – There is a lack of adequate segregation of duties and or controls missing over the accounting processes, payroll, accounts payable and accounts receivable.	The County began using a new fund accounting software CYMA as of January 1, 2011. CYMA has an audit trail and can track changes and limits access to areas by user. The Director of Administrative Services has access to all areas and the Accountant has access to all areas except for the bank reconciliation module and cannot create after the fact journal entries.	Ongoing. See Finding 2012-2.
2011	2011-3	Year-end closing and reconciling procedures for reporting - The County's formal period-end or year-end closing and reconciling procedures that are currently in use are not producing accurate and complete financial information in the general ledger for proper reporting.	The County reviewed processes and controls and updated the year end closing procedures. However, part A of the prior year finding regarding lack of a formal purchase order system was re-evaluated. The County does track expenditures and communicates with other departments regarding possible commitments.	Partially completed. See Finding 2012-3.

DOUGLAS COUNTY, KANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grantor's Pass-through Number	Grant Expenditures
U.S. Department of Agriculture:			
Passed through Kansas Department of Health and Environment:			
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	264736E/264280E/ 264310E	\$ 298,425
U.S. Department of Housing and Urban Development:			
Passed through Kansas Department of Commerce:			
CDBG Small Cities and Counties Rural Development Div. DG Co Economic Development Project #11-1N-R02	14.228	11-1N-R02	690,100
U.S. Department of Justice:			
Passed through Kansas Office of the Governor:			
Victims of Crime Act	16.575	12-VOCA-10	35,121
STOP Violence Against Women - 2012	16.588	12-VAWA-12	47,500
Passed through Kansas Department of Transportation:			
Enforcing Underage Drinking Laws Program	16.727	not available	3,865
<i>Total U.S. Department of Justice</i>			<u>86,486</u>
U.S. Department of Transportation:			
Passed through Kansas Department of Transportation:			
State and Community Highway Safety	20.600	1	OP-1198-13
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	20.601	1	
State and Community Highway Safety	20.703	not available	85,750
<i>Total U.S. Department of Transportation</i>			<u>97,851</u>
U.S. Department of Health and Human Services:			
Passed through National Association of County and City Health Officials:			
Medical Reserve Corps Small Grant Program	93.008	MRC12 09	5,000
Passed through Kansas Department of Health and Environment:			
Public Health Emergency Preparedness - FFY2011	93.069	264678M	66,079
Directly Observed Therapy TB Meds	93.116	264461D/264461E	1,180
Family Planning-2012	93.217	264FP12	86,225
Family Planning-2013	93.217	264FP13	183,690
Immunization Cluster:			
Immunization Action Plan-2013	93.268	264315E3 OP	23,431
Collaborative Application for Chronic Disease - Tobacco	93.283	264435C	12,435
Refugee Assessments - 2012	93.566	264623F	2,200
Child Care Licensing - 2012	93.575	2643450A	19,770
Child Care Licensing - 2013	93.575	2643450B	52,809
Teen Pregnancy Targeted Case Management - 2012	93.778	2642043/2640202/264MEDICAID	33,078
Teen Pregnancy Targeted Case Management - 2013	93.778	2642043/2640202/264MEDICAID	34,397
STD Control Programs - 2013	93.977	264308B	6,933
Chronic Disease Risk Reduction - 2012	93.991	not available	2,582
Chronic Disease Risk Reduction - 2013	93.991	not available	7,000
Maternal & Child Health - Block Grant - 2012	93.994	264329E	28,815
Passed through the Unified Government of Wyandotte County:			
Public Health Emergency Preparedness	93.069	not available	2,787
<i>Total U.S. Department of Health and Human Services</i>			<u>568,411</u>
U.S. Department of Homeland Security:			
Passed through Kansas Adjutant General:			
Emergency Management Performance Grants	97.042	not available	166,297
Emergency Management	97.053	not available	3,006
Hazard Mitigation Grant	97.039	FEMA-DR-4010-KS	25,627
<i>Total U.S. Department of Homeland Security</i>			<u>194,930</u>
Total Federal Awards Expenditures			<u>\$ 1,936,203</u>

1 - Highway Safety Cluster = \$12,101

See accompanying note to the financial statements
and Independent Auditor's Report.

DOUGLAS COUNTY, KANSAS

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2012

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Douglas County, Kansas and the Lawrence-Douglas County Health Department, and is presented on the regulatory 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 financial statements.