

Big Rapids  Public Schools

BIG RAPIDS, MICHIGAN

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

 **Rehmann**

BIG RAPIDS PUBLIC SCHOOLS
Single Audit Report

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**INDEPENDENT AUDITORS' 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**

November 15, 2010

Board of Education
Big Rapids Public Schools
Big Rapids, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Big Rapids Public Schools*, as of and for the year ended June 30, 2010, which collectively comprise Big Rapids Public Schools' basic financial statements and have issued our report thereon dated November 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 Big Rapids Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Big Rapids Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Big Rapids Public Schools' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2010-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Rapids Public Schools' 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 matters that we reported to management of Big Rapids Public Schools in a separate letter dated November 15, 2010.

Big Rapids Public Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Big Rapids Public Schools' response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

**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**

November 15, 2010

Board of Education
Big Rapids Public Schools
Big Rapids, Michigan

Compliance

We have audited the compliance of *Big Rapids Public Schools* 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, 2010. Big Rapids Public Schools' major federal programs are identified in the summary of auditors' 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 Big Rapids Public Schools' management. Our responsibility is to express an opinion on Big Rapids Public Schools' 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 Big Rapids Public Schools' 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 of Big Rapids Public Schools' compliance with those requirements.

In our opinion, Big Rapids Public Schools 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, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which 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 2010-3 through 2010-5.

Internal Control Over Compliance

Management of Big Rapids Public Schools 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 Big Rapids Public Schools' 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 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 Big Rapids Public Schools' 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.

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 deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-2 through 2010-5. A *significant deficiency in internal control over compliance* is a deficiency, or a 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.

Big Rapids Public Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Big Rapids Public Schools' responses and, accordingly, we express no opinion on them.

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



**INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS**

November 15, 2010

Board of Education
Big Rapids Public Schools
Big Rapids, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Rapids Public Schools as of and for the year ended June 30, 2010, and have issued our report thereon dated November 15, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Big Rapids Public Schools' 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



BIG RAPIDS PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass- through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2009	Current Year Cash Received
U.S. Department of Agriculture					
<i>Passed-through the Michigan Department of Education:</i>					
Child Nutrition Cluster:					
Cash assistance:					
National School Lunch - Breakfast	10.553	091970	\$ 8,465	\$ -	\$ 8,465
National School Lunch - Breakfast	10.553	101970	94,666	-	94,666
				-	103,131
National School Lunch Section 4 All Lunches	10.555	091950	6,185	-	6,185
National School Lunch Section 4 All Lunches	10.555	101950	57,810	-	57,810
National School Lunch Section 11 Free and Reduced	10.555	091960	36,568	-	36,568
National School Lunch Section 11 Free and Reduced	10.555	101960	337,563	-	337,563
National School Lunch Snacks	10.555	091980	1,192	-	1,192
National School Lunch Snacks	10.555	101980	11,908	-	11,908
				-	451,226
Summer Food Service Program for Children	10.559	090900	31,820	-	31,820
Summer Food Service Program for Children	10.559	091900	3,330	-	3,330
				-	35,150
Non-cash assistance:					
Entitlement Commodities	10.555	2009-2010	66,754	-	66,754
Bonus Commodities	10.555	2009-2010	2,335	-	2,335
Reimbursements	10.555	2009-2010	1,048	-	1,048
				-	70,137
Total U.S. Department of Agriculture				-	659,644
U.S. Department of Interior					
<i>Passed-through Newaygo County:</i>					
National Forest	11.000	-n/a-	11,513	-	11,513
<i>Passed-through Mecosta County:</i>					
National Forest	11.000	-n/a-	625	-	625
Total U.S. Department of Interior				-	12,138
U.S. Department of Education					
<i>Passed-through Michigan Department of Education:</i>					
Title I, Part A	84.010	091530-0809	550,708	38,989	47,540
Title I, Part A	84.010	101530-0910	564,864	-	243,803
				38,989	291,343

Expenditures		Accrued (Deferred)
(Memo Only)	Year Ended	Revenue
Prior Year(s)	June 30, 2010	June 30, 2010
\$ -	\$ 8,465	\$ -
-	94,666	-
-	103,131	-
-	6,185	-
-	57,810	-
-	36,568	-
-	337,563	-
-	1,192	-
-	11,908	-
-	451,226	-
-	31,820	-
-	3,330	-
-	35,150	-
-	66,754	-
-	2,335	-
-	1,048	-
-	70,137	-
-	659,644	-
-	11,513	-
-	625	-
-	12,138	-
518,579	8,551	-
-	564,864	321,061
518,579	573,415	321,061

(continued)

BIG RAPIDS PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards (Concluded)

For the Year Ended June 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Pass- through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2009	Current Year Cash Received
U.S. Department of Education (Concluded)					
<i>Passed-through Michigan Department of Education (Concluded):</i>					
Title II, Part A	84.367	090520-0809	\$ 178,550	\$ 6,114	\$ 32,552
Title II, Part A	84.367	100520-0910	155,580	-	79,115
				<u>6,114</u>	<u>111,667</u>
ARRA Title II, Part D	84.386	104295-0910	11,269	-	7,599
ARRA Title I, Part A	84.389	101535-0910	296,050	-	-
ARRA Budget Stabilization Funds	84.394	092525-0809	760,119	760,119	760,119
ARRA Budget Stabilization Funds	84.394	102525-0910	573,192	-	379,432
				<u>760,119</u>	<u>1,139,551</u>
<i>Passed-through Mecosta-Osceola Intermediate School District:</i>					
ARRA - Special Education Cluster (IDEA)	84.391	-n/a-	233,689	-	169,464
ARRA - Special Education Cluster (IDEA) - Preschool	84.392	-n/a-	12,166	-	6,913
Total U.S. Department of Education				<u>805,222</u>	<u>1,726,537</u>
U.S. Department of Health and Human Services					
<i>Passed-through Mecosta/Osceola ISD:</i>					
Medicaid Outreach	93.778	-n/a-	6,312	-	6,312
Total of Expenditures of Federal Awards				<u>\$ 805,222</u>	<u>\$ 2,404,631</u>

See accompanying notes to the schedule of expenditures of federal awards.

Expenditures		Accrued
(Memo Only)	Year Ended	(Deferred)
Prior Year(s)	June 30, 2010	Revenue
		June 30, 2010
\$ 152,112	\$ 26,438	\$ -
-	155,580	76,465
152,112	182,018	76,465
-	11,269	3,670
-	171,055	171,055
760,119	-	-
-	573,192	193,760
760,119	573,192	193,760
-	233,689	64,225
-	12,166	5,253
1,430,810	1,756,804	835,489
-	6,312	-
\$ 1,430,810	\$ 2,434,898	\$ 835,489

BIG RAPIDS PUBLIC SCHOOLS
Single Audit Report
Notes to Schedule of Expenditures of Federal Awards

NOTE 1 – RECEIPTS AND REVENUE

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

The Schedule of Expenditures of Federal Awards (the “Schedule”) has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, deferred revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

NOTE 2 – GRANT EXPENDITURES

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grants Section Auditors Report (7120) and the Grant Auditor Report reconcile with this schedule.

Expenditures are reported on the Schedule of Expenditures of Federal Awards for all active awards. Accordingly, the Schedule presents expenditures for the current year grant which remains active beyond the end of the fiscal year because of the accounts receivable, deferred revenue, or accounts payable items.

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BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

2010-1 – Preparation of Governmental Financial Statements / Material Audit Adjustments
Material Weakness in Internal Control over Financial Reporting

Criteria. All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition. During our audit, we identified and proposed several audit adjustments (each of which was reviewed, approved, and posted by management) to correct various account balances, and record year end accruals. In our opinion, these adjustments collectively had a material effect on the District's financial statements. In addition, the District relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process, rather than obtaining the training and experience necessary to complete that task internally. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the District's *internal* controls.

Cause. This condition was caused by various inadvertent oversights in the process of preparing for the annual audit and the District's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect. As a result of this condition, the District's accounting records were initially misstated by amounts material to the financial statements. Further, the District lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, at least in part, on its external auditors for assistance with this task.

Recommendation. The District has already reviewed and approved the necessary adjustments identified during the audit, and their effect has been included in the District's financial statements. In addition, we recommend that the District ensure that members of management responsible for the accounting and reporting function receive appropriate training to ensure that they are able to apply generally accepted accounting principles in preparing the District's financial statements, even if it intends to continue to outsource the actual preparation of these statements to its independent auditors.

View of Responsible Officials. The District has determined that it is most cost effective to outsource the preparation of the annual financial statements to its external auditors.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-2 – Documented Approval of Invoices (Allowable Costs / Cost Principles)
Significant Deficiency in Internal Controls over Compliance
CFDA # 84.010/84.389 – Title I, Part A Cluster

Criteria. Grant recipients are required to spend federal funding for allowable purposes. An important element of ensuring that grant funds are used for allowable purposes is having invoices reviewed and approved by the grant administrator prior to disbursement. Documentation of such approval is a requirement of OMB Circular A-87.

Condition. 7 of the 10 accounts payable disbursements that were reviewed did not evidence independent review and approval.

Cause. This condition is caused by a management oversight in documenting this review and approval, which appears to have taken place verbally.

Effect. As a result of this condition, the District was exposed to the risk that Title I funds could be used for unallowable purposes.

Questioned costs. The selected invoices for which independent review and approval was not documented totaled \$65,680.

Recommendation. We recommend that the Curriculum Director or Finance Director approve all Title I expenditures prior to disbursement. This should be evidenced by signature/initials and date on the invoice itself, which should be retained as evidence of this review.

View of Responsible Officials. The District will have the Curriculum Director sign or initial all Title I expenditure invoices prior to disbursement. These will then be reviewed by the Finance Director to ensure expenditures meet Title I requirements.

2010-3 – Documentation of Payroll Costs (Allowable Costs / Cost Principles)
Immaterial Noncompliance / Significant Deficiency in Internal Controls over
Compliance
CFDA # 84.010/84.389 – Title I, Part A Cluster

Criteria. Personnel charges to federal programs (such as Title I, Part A) must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B, Item 8h.

Condition. The District based the allocation of salary costs of the Curriculum Director on a pre-determined budgeted percentage. The documentation to support the actual time allocation was incomplete as it was only a record of hours worked on the Title I program, and not a full record of total hours worked, as required by OMB Circular A-87. However, the hours logged to the Title I program did reasonably approximate the budgeted allocation, based on a standard work schedule. In addition, an employee who worked on two federal cost objectives completed semi-annual certifications as documentation of time and effort. Such certifications are only allowable to the extent that the employee works on a single cost objective.

Cause. This condition was caused by a misunderstanding by program management in applying the documentation requirements of Federal Cost Principles.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Effect. As a result of this condition, the District did not fully comply with the document requirement applicable to personnel costs charged to this program in accordance with OMB Circular A-87.

Questioned costs. No costs were questioned as a result of this finding inasmuch as the District was able to produce documentation of hours worked on the grant by each individual which, in comparison to a full-time work schedule, approximated the amounts actually charged to the grant.

Recommendation. We recommend that the District carefully review the provisions of Federal Cost Principles as they relate to documenting personnel costs and revise its timekeeping procedures as necessary.

View of Responsible Officials. The District will review the provisions of Federal Cost Principles and make sure that it fully complies with documenting personnel costs and necessary time keeping procedures. The District will also more carefully look at what personnel is being charged to federal accounts and ensure actual charges match necessary documentation.

2010-4 – Procurement, Suspension and Debarment

U.S. Department of Education

CFDA # 84.010/84.389 – Title I, Part A Cluster

Immaterial Noncompliance / Significant Deficiency in Internal Control over Compliance

Criteria. A recipient of federal awards is required to determine that vendors being paid with federal funds are not suspended or debarred from doing business with the federal government. Such procedures are required whenever the amount disbursed to a single vendor in a given fiscal year is expected to be at least \$25,000.

Condition. The District does not have a procedure in place to determine whether vendors being utilized for federal programs are suspended or debarred.

Cause. This condition was the result of having no formal policy in place and a management oversight in obtaining support from vendors when contracts were initiated.

Effect. As a result of this condition, the District was exposed to the risk that disbursements of federal awards would be made to vendors suspended or debarred by the federal government.

Questioned costs. No costs were questioned as a result of this finding inasmuch as the vendors involved were not actually suspended or debarred.

Recommendation. We recommend that the District develop a formal, centralized procedure for verifying that vendors are not suspended or debarred from doing business with the federal government. One such procedure might be the inclusion of standard language to that effect in all contracts involving federal funds.

View of Responsible Officials. Management agrees with the finding and proposed recommendation of the auditors. The District will implement such a procedure which will be monitored periodically by the central office.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

2010-5 – Highly Qualified Personnel (Special Tests and Provisions)

Immaterial Noncompliance / Significant Deficiency in Internal Control over Compliance
CFDA # 84.010/84.389 – Title I, Part A Cluster

Criteria. Michigan law requires that instructional staff in elementary and secondary educations attain a certain level of education, competence, or professional development in order to demonstrate qualification. This is referred to as being “highly qualified” and must be documented in accordance with State guidelines. The Title I program requires that all teachers and paraprofessional charged to the grant be highly qualified staff.

Condition. During the year, the District charged salaries and fringe benefits to the Title I program for a certain paraprofessional who did not meet the standards for being highly qualified.

Cause. This condition was a result the employee obtaining below the minimum score in certain sections of a competency examination, which was not identified by District management.

Effect. As a result of this condition, the District was not in compliance with federal grant requirements, and State law, and requested reimbursement for unallowable expenditures.

Questioned costs. No costs are being questioned as a result of this finding as the District had sufficient allowable costs being paid from local funding to replace the questioned costs.

Recommendation. We recommend that the District compare actual test results to Michigan Department of Education guidance on passing scores and take corrective action as necessary.

View of Responsible Officials. The District will more closely monitor test results of employees and compare the results with MDE guidance for passing scores. The District will also do this prior to placing the employee in an assignment for the school year.

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

2009-1 – Preparation of Governmental Financial Statements / Material Audit Adjustments

Corrective action was not sufficient. Finding has been repeated as item 2010-1.

2009-2 – Documentation of Payroll Costs (Allowable Costs / Cost Principles)
CFDA # 84.010 – Title I, Part A

Corrective action was not sufficient. Finding has been repeated as item 2010-3.

2009-3 – Cash Management
CFDA # 84.010 – Title I, Part A

Corrective action was sufficient. Finding has not been repeated.

BIG RAPIDS PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs (Concluded)
For the Year Ended June 30, 2010

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS (CONCLUDED)

2009-4 – Highly Qualified Personnel (Special Tests and Provisions)
CFDA # 84.010 – Title I, Part A

Corrective action was not sufficient. Finding has been repeated as item 2010-5.

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