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I have audited the general purpose financial statements of the County of El Dorado for the year ended June 30, 2000, and have issued my report dated January 11, 2001. Professional standards require that I provide you with the following information related to my audit.

## **My Responsibility under Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in my engagement letter dated June 20, 2000, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute assurance about whether the general purpose financial statements are free of material misstatement. Because an audit is designed to provide reasonable but not absolute assurance, and because I did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and may not be detected by me.

In planning and performing my audit, I considered the County of El Dorado's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of El Dorado's financial statements are free of material misstatement, I performed tests of its compliance with certain provision 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 my audit. Also, in accordance with OMB Circular A-133, I examined, on a test basis, evidence about the County of El Dorado's compliance with types of compliance requirements described in the U.S. Office of Management and Budget (OMB) circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County of El Dorado's compliance with those requirements. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination on the County of El Dorado's compliance with those requirements.

### **Signification Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of El Dorado are described in Note One (1) to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2000. I noted no transactions entered into by the County of El Dorado during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Managements' estimate of the Risk Management Fund's Claims liability for self insurance is based on actuarial assumptions. I evaluated the key factors and assumptions used to develop the Risk Management Fund's Claim liability for self insurance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the Liability for Closure and Postclosure Costs for the Union Mine Landfill is based on engineering studies. I evaluated the key factors and assumptions used to develop the Closure and Postclosure Costs for the Union Mine Landfill in determining that it is reasonable in relation to the financial statement taken as a whole.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in my judgement, may not have been detected except through my auditing procedures. These adjustments may include those proposed by me, but not recorded by the County of El Dorado that could potentially cause future financial statements to be materially misstated, even though I have concluded that such adjustments are not material to the current financial statements. I have proposed no audit adjustments that could, in my judgement, either individually or in the aggregate, have a significant effect on the County of El Dorado's financial reporting process.

### **Disagreements with Management**

For purposes of the letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require that the consulting accountant check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

### Issues Discussed Prior to Retention of Independent Auditor

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County of El Dorado's auditor. However, this discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

### Difficulties Encountered in Performing the Audit

The completion of my audit was delayed because the Schedule of Federal Awards was not completed in a timely manner. Seven months after the year-end, the amounts on the schedule were not finalized and could not be subjected to audit procedures. Extension of time to submit reports has been requested. This extension of time was also requested in the prior year. The financial reporting process does not have reasonable controls to provide for the absence of a crisis condition. The reason for the delays are not specified and appear to be a workload management issue.

The completion of my audit was also delayed because the response letter from the County's legal counsel was not received in a timely manner. I have asked management to contact legal counsel to request accelerated processing of the response.

### Findings and Recommendations

In the following section I will discuss certain observations that I believe warrant attention and/or future monitoring by the County management.

## **CAPITAL AND OPERATING LEASE OBLIGATIONS**

### Finding:

Various County departments have entered into lease obligations to finance the purchase of equipment or to obtain use of equipment. The remaining balance on the capital lease obligation is \$1,849,548 plus \$260,600 in interest. The interest amounts to fourteen percent (14.%). The operating lease obligations amount to \$1,239,705 plus lease costs of \$394,436. This results in an average percentage of cost for these leases to be around thirty-two percent (32%). The County has incurred additional costs of \$655,000 by entering into these leases when it has a sufficient fund balance to purchase these items outright.

### Recommendation:

Operating and financial leases should only be used if there is insufficient cash available. It is a very expensive way to finance the cost of purchases. The County presently has a sufficient fund balance that should enable it to purchase the equipment it needs. Purchasing should establish a policy that items will be purchased, rather than leased in the future, unless there is a definite economic advantage to leasing. As for the present leases, most of the operating leases cannot be terminated but the Capitalized leases sometimes have prepayment options. I would strongly recommend the payoff of any lease that can be done so with savings to the County.

## **ENCUMBRANCES**

### Finding:

It was observed that there were contracts included in encumbrances that had expired as of June 30, 2000. The department heads receive a monthly encumbrance status for their review and it is their responsibility to inform purchasing of any change in status.

## ENCUMBRANCES-CONTINUED

### Recommendation:

The Auditor-Controller's department has initiated a control whereby payments in excess of \$10,000 are looked at and compared to contracts and purchase orders to determine their validity. It appears that general services cannot rely on the departments to inform them of expired contracts or purchase orders and should institute some controls that would flag these events. This would allow purchasing to inquire of the department staff as to the status of each purchase order or contract.

## ENCUMBRANCES-NET COST SAVINGS

### Finding:

Encumbrances include an allocated amount from the previous year's unexpended budget. The amount is designated as "Net Cost Savings" and represents twenty-five percent (25%) of a department's unexpended budget. Ten (10) departments have set monies aside representing \$305,000. These amounts are not true encumbrances. The definition of encumbrance is:

Encumbrances: A reserve for encumbrances is used when goods or services have been ordered or contracted for but have not been received and no liability yet exists. Once the goods or services are received or consumed, a liability (and expenditure) is recognized and the reserve for encumbrances is eliminated.

### Recommendation:

The \$305,000 is not a true encumbrance and should be reclassified. These are Board designated funds which can be reallocated at their will.

## TRANSIT OCCUPANCY TAX IMPOUND

### Finding:

The County maintains a trust fund for excess collections on the "Transit Occupancy Tax". Presently, the trust fund has a balance in excess of \$600,000.

Effective January 1, 1993 (Ordinance Number 4262) the Board of Supervisors raised the transit occupancy tax (Chapter 3.28 of the County Ordinance Code) from eight percent (8%) to ten percent (10%). That increase in the transit occupancy tax was not approved by the voters and is interpreted to be a tax within the meaning of Proposition 62.

Under recommendation of County Counsel, the County has continued the ten percent (10%) rate. However, they have impounded the monies generated by that two percent (2%) increase until the issue is resolved by the courts or the legislature. The issue is to be resolved in the California Supreme Court in the case of Santa Clara County, etc. v. Guardino (1995) 11 cal. 4<sup>th</sup> 220 in which a ruling was issued which suggests strongly that in the future any new or increased general tax will be subject to majority voter approval. The Court specifically held that the two-thirds (2/3) voter approval requirement for special taxes contained in Proposition 62 is constitutional.

## TRANSIT OCCUPANCY TAX IMPOUND-CONTINUED

### Recommendation:

The County cannot indefinitely continue to collect the two percent (2%) increase in the transit occupancy tax. There needs to be a determination as to whether it is appropriate to continue the collection of this tax increase. If it is to continue, there should be consideration given to put the increase to the voters' approval. It should be emphasized that voters' approval must have a two-thirds (2/3) majority.

Whether the increased tax is continued or discontinued, there still remains the decision on what to do with the funds that are presently impounded. The funds should be made available to be used by the Citizens of El Dorado County. There needs to be some discussion on what can legally be done with the monies.

## DEPOSITS MADE IN A TIMELY MANNER

### Finding:

Nearly all departments that were tested for cash receipts were not following the County policy as stated. "The County's Cash Handling Guidelines require that all monies collected by a department be deposited intact and in a timely manner." A \$200 limit has been established for the maximum allowable amount that a department may have on hand before they must make a deposit. These departments had accumulated substantial amounts in excess of the \$200 and had conflicting interpretations of what the County's policy was.

### Recommendation:

Although the cash receipts manual should be updated with a more reasonable amount, the policy needs to be communicated to and followed by the departments.

## EMPLOYEE TIME CARDS

### Finding:

"Each employee is required to complete a time card, which must be signed for each pay cycle". During our tests, it was noted that a large percentage of the time cards were not signed by either the employee or their supervisor. Some, in fact, were not signed at all. It was also noted that some departments are not requiring time cards for certain salaried employees. A statement was made that it wasn't required. The two departments involved were the Sheriffs' and Assessor's offices.

### Recommendation:

Policy requires that employees complete a time card and that it must be signed for each pay cycle. The only exemption would be elected officials and certain appointed department heads. All time cards should be completed and signed by both the employee and their supervisor. These become a legal document and verify that the employee has been paid for the time documented and agreed to.

## **AMBULANCE BILLING**

### Finding:

The policy in regards to collecting, documenting, adjusting and writing-off an uncollectible amount or account is not clearly defined. The County policy has been not to record these receivables. There are also variations to the present policy on what goes to the County Collections Department. This results in some confusion as to what goes to collection.

### Recommendation:

The County needs to review its collections policy and procedures for ambulance billings and to make the appropriate updates regarding controls that actually reflect the operating intentions of the system.

Also, there appears to be no reconciliation of the amounts received as recorded in the reports produced by ambulance billing and the amounts recorded in the County revenue ledger. The collection amounts should be reconciled at least monthly.

## **FLEET MANAGEMENT**

### Finding:

The present system does not have the capability to run a detail of the life activity for each vehicle. It was noted in my tests that there were some unrealistic charges or credits to the various departments because of inaccurate odometer readings. Upon inquiry, it was determined that some departments do not follow policy and inform Fleet Management of changes. There is also indication that the Department does not review fleet management charges or question amounts that appear to be inaccurate. Most large adjustments were for previous errors or were for errors that were subsequently corrected.

### Recommendation:

The Department of General Services should review the internal policy and procedures for Fleet Management in regards to control of data that is reported to them. If there is a problem with a department in furnishing accurate data, it should be addressed and worked out as to the best procedures to follow so that both departments can achieve their objectives.

As part of developing a new system, tracking of the activity of each vehicle for its life might be a beneficial management tool.

A performance operational audit might also be considered.

## **SHERIFF RECEIVABLE DOCUMENTATION**

### Finding:

The Sheriff's Department performs services for which it will bill. The invoices are prepared on a word processing program, but there are no formal follow-up procedures or receivable listings for accounts that have not paid. Even so, it was stated that they feel confident that they do not have a problem with any possible oversights.

## SHERIFF RECEIVABLE DOCUMENTATION-CONTINUED

### Recommendation:

It would not be advisable for people to fail to pay the Sheriff for services. However, the Department needs to develop policies and procedures to implement a more reliable system for billing and to maintain their accounts receivable. Having such an informal tracking system can result in errors. The Department should have a receivable collection system that can provide them information on collections and outstanding receivables.

## ENVIRONMENTAL MANAGEMENT-RECEIPTS

### Finding:

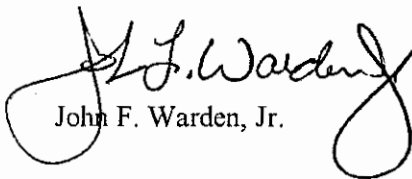
The department is currently maintaining all of their revenue records manually. The process of collecting and posting receipts is divided among four individuals. They use the pegboard system and hand receipt all information. They are the only department we tested that are still maintaining manual records.

### Recommendation:

We recommend that they reduce the number of people who are handling the funds and take advantage of the technology that is available to them. This would ensure more accuracy and increase efficiency. They have a sophisticated computer program that they feel could handle the receipting process. The department should continue pursuing their goal to implement a new process to prepare all receipts and journals through use of the computer.

This information is intended solely for the use of the Board of Supervisors, Auditor-Controller and management of the County of El Dorado and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



John F. Warden, Jr.