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I have audited the general purpose financial statements of the County of El Dorado for the year ended June 30, 2002, and have issued my report dated January 31, 2003. 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 27, 2002, 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 by 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 provisions 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 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 of the County of El Dorado's compliance with those requirements.

Significant 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 Two (2) to the general purpose financial statements. The County of El Dorado adopted GASB Statement Numbers 33-38 and GASB Interpretation Number 6 during the fiscal year ended June 30, 2002. 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 accrued compensated absences is based on current employee wage rates. I evaluated the key factors and assumptions used to develop the accrued compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Managements' estimate of delinquent assessments receivable is based on County of El Dorado abstracts. I evaluated the key factors and assumptions used to develop the delinquent assessments receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

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.

Managements' 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 of 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. The 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. All audit adjustments proposed have been accepted.

Disagreements with Management

For purposes of this 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 discussion 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. The amounts on the schedule were not finalized until March 3, 2003 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 Management Representation Letter and the Legal Representation Letter were not received until March 26, 2003. Conversion to the new reporting model, as outlined in GASB 34, took longer than expected because of various conversion problems from the FAMIS system.

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.

TRANSIT OCCUPANCY TAX IMPOUND

Finding:

As mentioned in the previous audit, the County maintains a trust fund for excess collections on the "Transit Occupancy Tax". As of December 2002, the trust fund has a balance in excess of \$1,114,000.

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.

TRANSIT OCCUPANCY TAX IMPOUND-CONTINUED

Finding-Continued:

In November 2002 the increase again went to the voters for approval and was rejected. The Board of Supervisors subsequently repealed the two percent (2%) increase effective January 1, 2003.

Recommendation:

The El Dorado County Board of Supervisors has to determine the legal disposition of funds that presently reside in the trust fund.

TRUST FUNDS ACCOUNTING

Finding:

Trust and Agency Funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments and other funds. These funds have not been subject to the same accounting and internal control procedures as applied to the general governmental funds. Due to the lack of control upon my previous recommendation accounts were reconciled and revealed the following differences in the Social Services trust funds:

<u>Name</u>	<u>Fund</u>	<u>Amount</u>
Assistance	550-302	\$ (758,766.60)
Administration	550-303	(200,988.70)
MediCal and CMS	550-304	87,526.55
County Medical Service Program		
IHSS	550-305	(241,937.16)
Homemaker Chore		
Food stamp	550-308	156,091.59
Advancement		
Deficit		<u>\$ (958,074.32)</u>

Recommendation:

Trust funds should be subject to the same internal control procedures as the governmental funds are. Annual reconciliation should be done by a responsible official and any differences should be analyzed. Any disbursements in excess of amounts in trust should be approved by a responsible official before funds are released. These funds should not be allowed to go into a deficit in future years.

As for the present deficit, funds should be transferred to cover this deficit.

Current year transactions for the Social Services advance trust funds will be reconciled monthly. On January 7, 2003 the Board of Supervisors approved a general fund budget transfer for \$958,074 for the trust fund shortage and referred the item to the Chief Administrative Officer for a report back on April 8, 2003, on whether the County should seek an outside expert to conduct an audit or review of Social Services Department trust funds that remain unreconciled.

TRUST FUND-WILLIAMSON AGRICULTURE ACT

Finding:

There is presently a balance of \$457,204.25 in this account with no activity since 1986. These funds were collected from landowners upon the cancellation of Williamson contracts for agricultural preserves.

The fees mentioned are provided for in Government Code Sections 51283 and 51283.1. Section 51283 contains a formula for determining "cancellation fees" for immediate cancellation of a Williamson Act contract. Section 51283.1 provides a scheme for determining additional "deferred taxes" to be paid upon cancellation. The distinction between the two payments is significant in that the cancellation fees are to be paid to the State upon collection as set forth in Section 51283(d). This section states as follows:

"When deferred taxes required by this section are collected, they shall be transmitted by the County Treasurer to the Controller and be deposited in the General Fund. The funds collected by the County Treasurer with respect to each cancellation of a contract shall be transmitted to the Controller within thirty days of the Board's or Council's execution of a certificate of cancellation of a contract, as specified in subdivision (b) of Section 51283.4."

The deferred taxes provided for in Section 51283.1, on the other hand, are to be allocated to the various taxing agencies levying property taxes as provided in Section 51283.1(e). As you can see we are substantially past the thirty day limit.

Recommendation:

It is important to determine the nature of the funds received in order that the correct distribution be made.

It appears that the funds currently in the possession of the County should have been either forwarded by the County Treasurer to the State Controller upon collection or allocated to the local taxing agencies having an interest in the property, depending upon the character of the funds collected. I recommend you consult with other affected departments, most notably the Treasurer's and Assessor's offices, to determine the appropriate course of action at this time.

TRUST FUNDS: JAIL COMMISSARY

Finding:

In reviewing the Jail Commissary Trust accounts for both Placerville and South Lake Tahoe it was determined that there was substantial expenditures that relate to County business.

Recommendation:

These two trust accounts should only account for receipts collected and reimbursements for expenditures made. They should not account for expenditures that relate to County business. Expenditures on behalf of the inmates should be budgeted for under appropriate departments under the Sheriffs Department. Reimbursements for these expenditures should follow appropriate procedures.

FLEET MANAGEMENT

Finding:

The offline fuel system has not worked for a substantial amount of time. This has limited control over fuel usage and could result in abuses not being revealed. Presently a full card is maintained with each vehicle, but since the tracking system has not been operational, individuals must enter all data and usage by a hand written log. The information recorded on the log is not subject to verification and relies on honesty. Errors could be compounded when the hand written data is entered into the computer.

Recommendation:

The underlying factor in this observation is that the system is subject to abuse. When I inquired why the system has not been fixed it was stated that the cost of repair was not budgeted for and probably would not be. It appears that management has considered the cost versus benefit of the repairs and is willing to accept certain risks of misuse and inaccurate reporting. Repairing the system should be reviewed.

EL DORADO COUNTY SHERIFF'S OFFICE-SUPPORT SERVICES DIVISION

CIVIL ADMINISTRATION

Finding:

The Division maintains control over collections and disbursements of civil judgements. Accounts are maintained by file or case number on a Sirron system, which tracks receipts and disbursements. A separate bank account not under the County Auditor's control is maintained for this purpose. None of the transactions of this account are reflected in the books and records of the County. One person, a Sheriff Technician II, is responsible for, and has access to the handling, recording, preparation and mailing of checks; preparation of deposits and reconciliation of the bank statements. The blank checks are maintained under lock and key and are also accessible to this person. The immediate supervisor has little involvement over this operation. There is a need for accountability and separation of duties.

Recommendation:

I would recommend using the most practical combination of the following procedures to effect segregation controls:

- A responsible supervisor should review and sign all checks. The individual preparing the checks should not have authorization to sign them.
- Internal control is most effective when bank reconciliations are prepared by someone not responsible for entries of the receipts and disbursements records. Inasmuch as this may be difficult because of the small office, the reconciliation should be reviewed, approved and signed by a responsible supervisor. The supervisor should investigate any unusual items on a timely basis.
- All supporting documents should be stamped as entered or paid to prevent possible duplicate payments or entries.
- Reports on the Civil Bank Account should be forwarded monthly to the Sheriff's Accounting Department head or the County Auditor-Controllers so that appropriate transactions can be recorded in the County's Expendable trust account 41-524-311.
- Canceled checks should be maintained in numerical order. They would also include all voided checks.

COLLECTION/RECORDING SYSTEM-PROBATION

Finding:

As previously noted in the prior audit, the present system used to record collection and maintain accounts receivables is not adequate. The system does not have the capability to send out monthly statements and is very cumbersome to operate. Collection at Juvenile Hall is separate and is very time consuming.

Recommendation:

A time-management study should be considered in order to determine the adequacy of the accounting staff and the accounts receivable system. Emphasis should be to simplify the collection process, especially the steps necessary to process the restitution payments. Also, the collections at Juvenile Hall should be linked with the Probation Department. The Department needs to develop policies and procedures to document and implement any new system.

RECEIPT/COLLECTION/RECORDING SYSTEM-PLACERVILLE AIRPORT

Finding:

As previously noted in the prior audit, payments received are recorded manually, using a pegboard system, which is very time consuming and could be subject to mathematical errors. All receivables are also maintained manually using a card system.

Recommendation:

The department needs to upgrade to a more computerized system to record receipts immediately as they are received at the counter and to maintain receivables. Management should ensure that there is adequate staff and that they are properly trained to implement any new system. A time-management study should be considered in order to determine the appropriate staffing and system to be implemented by the department. The department also needs to develop policies and procedures to document and implement any new system.

RECEIPT/COLLECTION/RECORDING SYSTEM-MENTAL HEALTH

Finding:

Payments received over the counter are recorded manually, using a pegboard system, which is very time consuming and could be subject to mathematical errors.

Recommendation:

The Department should upgrade their system so that the counter receipts can be recorded immediately into the system. The system should also be capable of producing a counter receipt to be given to the client.

RECEIPT/COLLECTION/RECORDING SYSTEM-ANIMAL CONTROL

Finding:

Payments received over the counter are recorded manually. Because of the high volume of receipts coming in by mail, the Department batches these items and issues one receipt. This system is very time consuming and delays the issuing of licenses. The present software is not adequate to produce required reports and maintain the collection data.

Recommendation:

A time-management study should be considered in order to determine the adequacy of the accounting staff and the accounts receivable system. The Department should consider upgrading its present computerized system to record receipts immediately as they are received at the counter. A county receipt can be given to the client and receivables can be maintained in a timely fashion. The Department also needs to develop policies and procedures to document and implement any new system.

RECEIPT/COLLECTION/RECORDING SYSTEM-SOCIAL SERVICES

Finding:

The receipts that are a material amount are all handled electronically and it appears that there are sufficient systems in place to ensure that these amounts are posted to the correct revenue accounts. For the smaller amounts that are collected by mail or over the counter, there seems to be gaps in the controls. There does not appear to be any system in place to tie all the receipts together and to verify the total to the Deposit Permit. There has been a lot of staff turnover, which has resulted in some control steps being overlooked. Although they seem to have the systems in place, they are not being completely utilized. There is no one person who understands the complete process.

Recommendation:

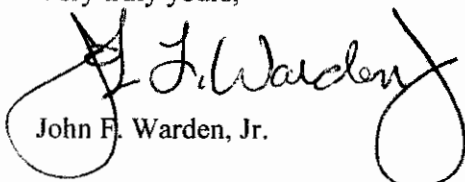
The Department should upgrade their system so that counter and mailed-in receipts can be recorded immediately into the system. The system should also be capable of producing a counter receipt to be given to the client. The Department also needs to develop policies and procedures to document controls and the flow of documents through the system so that everyone understands what they need to do and how it relates to the rest of the system.

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

Please refer to audit of Federal Awards Programs under OMB A-133 pages eighteen (18) through twenty-six (26).

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.