

**COUNTY OF EL DORADO, CALIFORNIA**

**MANAGEMENT REPORT  
AND REQUIRED COMMUNICATIONS**

**FOR THE YEAR ENDED  
JUNE 30, 2010**

**COUNTY OF EL DORADO**

Management Report  
and Required Communications  
For the Year Ended June 30, 2010

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To the Honorable Members of the  
Board of Supervisors of the County of El Dorado  
Placerville, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the County of El Dorado (County), California, for the fiscal year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 5, 2010. Professional standards also require that we communicate to you information related to our audit as discussed in the Required Communications section of this report.

In planning and performing our audit of the basic financial statements of the County as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions 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.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions and the status of our comments and suggestions concerning certain recommendations made in the County's prior year audit. We previously reported on the County's internal control in our report dated March 28, 2011. This letter does not affect our report dated March 28, 2011, on the financial statements of the County of El Dorado.

The County's management has provided responses to the comments described in the memorandum that accompanies this letter. We did not audit the County's responses and accordingly, we express no opinion on it.

This report is intended for the use of management, the Board of Supervisors of the County of El Dorado and others within the organization and is not intended to be used by anyone other than these specified parties.

To the Honorable Members of the  
Board of Supervisors of the County of El Dorado  
Placerville, California

We thank County staff for their cooperation during our audit. We have discussed our comments and suggestions with management and would be pleased to discuss them further.

*Gallina LLP*

Roseville, California  
March 28, 2011

## COUNTY OF EL DORADO

### Management Report – Required Communications For the Year June 30, 2010

#### **The Auditor’s Responsibility**

As stated in our engagement letter dated May 5, 2010, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We 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 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.

As part of obtaining reasonable assurance about whether the County’s financial statements are free of material misstatement, we 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 our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County’s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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 purpose of expressing an opinion on the County’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County’s compliance with those requirements.

#### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated May 5, 2010.

#### **Qualitative Aspects of Accounting Practices**

##### *Significant Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

## COUNTY OF EL DORADO

### Management Report – Required Communications For the Year June 30, 2010

#### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements and are based on management's current judgments. Those judgments are normally based on 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 financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Allowance for uncollectible accounts: Management's estimate is based on past experience and subsequent collections. We inquired with management on the need for allowances.
- Claims liability: Management's estimate is derived from actuarial valuations obtained from experts. We confirmed the balance of the claims liability reported in the financial statements with third parties responsible for actuarial reports.
- OPEB liability: Management's estimate is derived from actuarial valuations obtained from experts. We agreed the claims liability reported in the financial statements to those reported in actuarial reports prepared and issued during the year being audited.
- Liability for solid waste landfill closure and postclosure costs: Management's estimate is based on engineering estimates of future costs to be incurred. We reviewed the engineer's estimate.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are trivial, and communicate them to the appropriate level of management. There was only one uncorrected misstatement. Management has determined that its effect is immaterial, both individually and in the aggregate to the financial statements taken as a whole.

- Adjust total pooled cash to account for the fair value of the County's investments at June 30, 2010.

#### **Disagreements with Management**

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

## **COUNTY OF EL DORADO**

### **Management Report – Required Communications For the Year June 30, 2010**

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter.

#### **Management Consultations with Other Independent Auditors**

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 financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **Other Audit Findings or Issues**

We 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’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## COUNTY OF EL DORADO

### Management Report – Current Year Comments and Recommendations For the Year June 30, 2010

#### **ANNUAL STREET REPORT PREPARATION**

##### Criteria

The State of California requires that the Department of Transportation (Department) annually prepare the Annual Street Report detailing activity within the Department. The Auditor-Controller relies on certain information within the report for financial reporting purposes.

##### Condition

The Department issued the Annual Street Report in a timely manner. Subsequent to the report being issued, the Department found a mistake in the report relating to County's portion of property donated by private parties. The County had overstated its portion of capital assets by over \$25 million. The Department properly notified the Auditor-Controller and reissued a corrected Annual Street Report.

##### Cause

Sufficient review procedures within the Department are not in-place to ensure that amounts donated to the County from private parties are correctly presented in the Annual Street Report.

##### Effect

In the current year the \$25 million overstatement was included in both the initial Annual Street Report filed with the State and in the first draft of the County's financial statements.

##### Recommendation

We recommend that review procedures be updated in the Department of Transportation to ensure that property donated by private parties is correctly reported in the Annual Street Report prior to issuance.

##### Management Response

Department management concurs with the comment and recommendation. This recommendation has been implemented by the department whereby procedures have been modified to ensure that property donated by private parties is correctly reported in the Annual Street Report prior to issuance.



## COUNTY OF EL DORADO

Management Report – Current Year Comments and Recommendations  
For the Year June 30, 2010

### **RECONCILIATION OF THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS (SEFA) TO THE GENERAL LEDGER**

#### Criteria

OMB Circular § A-133 310(b) provides that auditees undergoing a federal single audit prepare a Schedule of Expenditures of Federal Awards (SEFA) listing individual programs by federal agency and Catalog of Federal Domestic Assistance (CFDA) number.

The County must have proper internal controls over financial reporting in place. Proper internal controls over financial reporting include, but are not limited to, internal controls that identify misstatements in the SEFA, retaining staff competent in SEFA reporting and related oversight roles, and adequate design of internal control over the preparation of the SEFA. Good internal controls and Circular OMB A-133 requires that the County reconcile the expenditures reported to grantors to the general ledger and to the federal expenditures reported on the SEFA.

#### Condition

It was noted that the Health Services Department had difficulty performing reconciliations of expenditures reported to grantors and on the SEFA to the general ledger. Further, the Health Services Department did not provide reconciliations for the year ended June 30, 2010 until late February 2011.

#### Cause

Many of the financial reports submitted to funding agencies by the Health Services Department during the fiscal year were not reconciled to the general ledger. This made the year end reconciliation of the SEFA to the general ledger very difficult.

#### Effect

Reporting incorrect amounts on the SEFA can result in grantors requiring the SEFA to be reissued. This can also cause the auditor to incorrectly determine major programs for the year that may result in additional programs being audited and additional audit fees.

#### Recommendation

We recommend that all financial reports prepared and submitted by the Health Services Department during the fiscal year be supported by and reconciled to the general ledger. We also recommend that the Health Services Department perform the year-end reconciliation of the SEFA to the expenditures in the general ledger on a timely basis.

**COUNTY OF EL DORADO**

Management Report – Current Year Comments and Recommendations  
For the Year June 30, 2010

**RECONCILIATION OF THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS (SEFA)  
TO THE GENERAL LEDGER (continued)**

Management Response

The Health Services Department recently reorganized its fiscal unit and hired a certified public accountant to serve as the Department's Chief Fiscal Officer. The County's management believe these changes will significantly improve the situation.

## COUNTY OF EL DORADO

### Management Report – New Accounting Pronouncements For the Year June 30, 2010

#### **GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT NO. 54** *Fund Balance Reporting and Governmental Fund Type Definitions*

This new accounting standard was issued in March 2009 to accomplish the following reporting objectives:

1. Improve the consistency in reporting fund balance components
2. Enhance fund balance presentation
3. Improve the usefulness of fund balance information
4. Clarify the definitions of the governmental fund types

This standard will impact the County's financial statements beginning in the fiscal year ending June 30, 2011.

The new standard requires disclosure of the County's governmental fund balances using the classifications listed below that reflect the level of constraint placed on future spending of fund balance.

1. *Nonspendable*: resources that cannot be spent because they are not in spendable form or are required to be maintained intact. Examples include imprest cash, inventories, prepaid items, long-term receivables, property held for resale and the corpus or principal of a permanent fund.
2. *Restricted*: resources that are constrained by external parties, by constitutional provisions or by enabling legislation (county ordinances) for a specific purpose. Some examples include unspent grant proceeds, property tax increment held by redevelopment agencies, gas taxes and realignment revenues.
3. *Committed*: resources that are constrained for specific purposes imposed by the County's Board of Supervisors using its highest form of decision making authority that remain binding until removed by the same action. The Board of Supervisors must take action before the end of the fiscal year. An example includes the board resolution to use tobacco settlement revenues to fund non-smoking programs.
4. *Assigned*: resources the County sets aside for a specific purpose. Unlike committed resources, assignments can be established by those outside the Board of Supervisors who have been delegated this authority. Assignments may lapse after a period of time or upon the happening of some event; whereas, commitments remain in effect until the Board reverses the decision by taking the same action that initially established the commitment.
5. *Unassigned*: unconstrained resources.

## COUNTY OF EL DORADO

### Management Report – New Accounting Pronouncements For the Year June 30, 2010

The statement includes a number of changes to governmental funds definitions. The most significant change impacts special revenue funds. In some cases, the new statement will require governments to discontinue using the special revenue fund type and combine the fund's remaining resources with the County's general fund.

Special revenue fund reporting is permitted only if all of the following conditions have been met:

1. The fund receives resources that are restricted or committed to expenditures for a specific purpose.
2. Resources that are restricted or committed comprise a substantial portion of the fund's total resources.
3. The nature of the restriction or commitment is not temporary.

Disclosure in the notes to the financial statements about the County's policies for minimum fund balance levels is required.

Potential challenges the County may encounter in implementing the new standard might include:

- The County has a large number of revenue sources funding a diversity of programs managed by department personnel. Documents identifying the nature of constraints are kept by departments. Obtaining this information may prove challenging.
- The general fund has the most levels of constraints. The accounting system may not provide information to separate its beginning balance into the various levels of constraints.

Our recommended approach for implementation of the new standard includes the following steps:

1. Establish fund balance policies.
2. Identify the highest decision-making level of authority.
3. Establish spending priority as to whether higher constrained resources are used first or last when funding of expenditures is available from multiple funding sources having different levels of constraints.
4. Make and document decisions about minimum fund balance policies.
5. Align formal stabilization arrangements with the more restrictive requirements imposed by the statement.
6. Identify the documents used by the County to evidence the level of constraint placed on resources.
7. Reevaluate existing funding balance types using the new definitions in the standard.
8. Using fund balances of governmental funds in the County's 2010 financial statement, determine fund balance categories using the new statement.

**COUNTY OF EL DORADO**

Status of Prior Management Report Comments  
As of June 30, 2010

Recommendation	Status/Comment
There were no prior year recommendations.	