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**COUNTY OF MODOC,
CALIFORNIA**

SINGLE AUDIT REPORT

For the Year Ended June 30, 2008

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COUNTY OF MODOC, CALIFORNIA
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2008

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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

To the Board of Supervisors of
the County of Modoc, California

We were engaged to audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Modoc, California (County) as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated _____, 2011. We were engaged to conduct 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. Because of the significance of the inadequacy of records for capital assets, compensated absences, beginning equity/fund balances which were not audited, and that we were unable to observe inventory as the date was prior to the time we were initially engaged as auditors; we were unable to apply other auditing procedures over these areas and therefore the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the County of Modoc. We also noted that various County funds have been spent into deficit cash and investment positions utilizing available restricted and unrestricted cash from other funds and external investment pool participants to cover warrants issued for the County's ongoing operations. In addition, we noted that the County's financial statements were prepared assuming that the County will continue as a going concern as the County had a negative cash and investment pool equity position at June 30, 2008 of \$(1,022,116) and \$(1,718,635), respectively. The General Fund and the Modoc Medical Center had negative cash positions of \$(361,003) and \$(11,059,834), respectively. Our report also noted that the County did not present Management Discussion and Analysis (MD&A) or budgetary information. Further, our report included an explanatory paragraph regarding the County's adoption of GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statement No. 25 and No. 27*, as of July 1, 2007/

Internal Control Over Financial Reporting

As required by *Government Auditing Standards*, we considered the County's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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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 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 deficiencies described in the accompanying schedule of findings and questioned costs, as items 2008-1 through 2008-44 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of questioned costs as items 2008-45 and 2008-46 to be significant deficiencies.

Compliance and Other Matters

We performed tests of the County's 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2008-4.

We noted certain matters that we reported to the management of the Modoc Medical Center, an enterprise fund of the County, in a separate letter dated _____, 2011.

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

This report is intended solely for the information and use of the County's management, Board of Supervisors, others within the entity, and 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.

Rancho Cucamonga, California
_____, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Supervisors of
the County of Modoc, California

Compliance

We have audited the County of Modoc, California's (County) 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 June 30, 2008. The County's 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 the County's management. Our responsibility is to express an opinion on the County's 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 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. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in items 2008-48, 2008-49, 2008-50, 2008-52, 2008-54, 2008-55, 2008-57, 2008-60 and 2008-61 in the accompanying schedule of findings and questioned costs, the County did not comply with the requirements regarding: activities allowed or unallowed/allowable costs for Secure Rural Schools and Counties (SRSC); eligibility for Temporary Assistance for Needy Families (TANF) and Medicaid cluster; subrecipient monitoring for SRSC, Substance Abuse and Treatment Block Grant (SAPT) and TANF; special tests and provisions for Food Stamps Cluster and TANF; and cash management for (SAPT) that are applicable to the aforementioned major federal programs. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures also disclosed other 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 2008-51, 2008-56, 2008-58, and 2008-59.

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Internal Control Over Compliance

The management of the County 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 the County's 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 the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-48, 2008-49, 2008-50, 2008-52, 2008-54, 2008-55, 2008-57, 2008-60 and 2008-61 to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-47, 2008-51, 2008-53, 2008-56, 2008-58, 2008-59, to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We were engaged to audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining information of the County of Modoc as of and for the year ended June 30, 2008. Because of the significance of the inadequacy of records for capital assets, compensated absences, beginning equity/fund balances which were not audited, and that we were unable to observe inventory as the date was prior to the time we were initially engaged as auditors; we were unable to apply other auditing procedures over these areas and therefore the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the County of Modoc. We also noted that various County funds have been spent into deficit cash and investment positions utilizing available cash from other funds, restricted and unrestricted, and external investment pool participants to cover warrants issued for the County's ongoing operations. In addition, we noted that the County's financial statements were prepared assuming that the County will continue as a going concern as the County had a negative cash and investment pool equity position at June 30, 2008 of \$(1,022,116) and \$(1,718,635), respectively. The General Fund and the Modoc Medical Center had negative cash positions of \$(361,003) and \$(11,059,834), respectively. Because of the significance of the matters discussed above the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to above.

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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. As noted in the first paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the County of Modoc. Therefore the scope of our work was not sufficient to enable us to express an in relation to opinion on the schedule of expenditures of federal awards and, accordingly, we express no opinion on it.

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

This report is intended solely for the information and use of the County's management, Board of Supervisors, others within the entity, 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.

Rancho Cucamonga, California
_____, 2011

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

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U.S. DEPT/PASS-THROUGH AGENCY/ PROGRAM TITLE	FEDERAL CFDA NUMBER	DIRECT OR PASS-THROUGH GRANTOR'S NUMBER ^[2]	FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>			
Food Stamps Cluster [1]:			
Passed-through California Department of Social Services:			
Food Stamps	10.551	N/A	\$ 904,185
Food Stamps Non-Assistance	10.561	N/A	120,958
Total Food Stamps Cluster [1]			<u>1,025,143</u>
Direct Programs:			
Forest Service:			
Secure Rural Schools and Counties-RAC [1]	10.665	08-DG-11050950-016	92,000
Natural Resources Conservation Service:			
Wildlife Habitat Incentive Program-Refuge	10.914	N/A	10,310
Sub-total Direct Programs			<u>102,310</u>
Passed-through State of California:			
Secure Rural Schools and Counties [1]	10.665	N/A	1,642,342
Total U.S. Department of Agriculture			<u>2,769,795</u>
<u>U.S. DEPARTMENT OF EDUCATION:</u>			
Passed-through California Department of Mental Health:			
Individuals with Disabilities Education Act (IDEA)	84.027	N/A	16,959
Total U.S. Department of Education			<u>16,959</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>			
Medicaid Cluster [1]:			
Passed-through California Department of Social Services:			
Medical Assistance Program (Medicaid Title XIX)	93.778	N/A	573,744
Total Medicaid Cluster [1]			<u>573,744</u>
Passed-through California Department of Alcohol and Drug:			
Substance Abuse and Treatment (SAPT) Block Grant [1]	93.959	N/A	400,657
Passed-through California Department of Mental Health:			
SAMSHA	93.958	N/A	10,245
Passed-through California Department of Public Health:			
Public Health Emergency Preparedness	93.069	N/A	110,033
Child Health and Disability Prevention Program	93.556	N/A	55,633
California Children's Services	93.645	N/A	93,732
Health Care Program for Children in Foster Care	93.658	N/A	13,918
Maternal Child Adolescent Health	93.994	N/A	111,604
Sub-total			<u>384,920</u>
Passed-through California Department of Social Services:			
Promoting Safe and Stable Families (PSSF)	93.556	N/A	852
Temporary Assistance for Needy Families (TANF) [1]	93.558	N/A	1,637,919
Child Welfare Services	93.645	N/A	8,254
Foster Care- Title IV-E [1]	93.658	N/A	358,096
Adoption Assistance	93.659	N/A	39,731
Social Services Block Grant	93.667	N/A	7,459
Independent Living Program (ILP)	93.674	N/A	22,359
Sub-total			<u>2,074,670</u>
Total U.S. Department of Health and Human Services			<u>3,444,236</u>

[1] Denotes a major program

[2] N/A - Not Available

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

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U.S. DEPT/PASS-THROUGH AGENCY/ PROGRAM TITLE	FEDERAL CFDA NUMBER	DIRECT OR PASS-THROUGH GRANTOR'S NUMBER ^[2]	FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>			
Homeland Security Cluster:			
Passed-through California Emergency Management Agency:			
State Homeland Security Program 2006 (SHSP)-Law Enforcement	97.067	2006-71	50,526
State Homeland Security Program 2007 (SHSP)-Law Enforcement	97.067	2007-0008	6,652
Terrorism Prevention Program 2006 (LETPP)	97.067	2006-71	56,511
Terrorism Prevention Program 2007 (LETPP)	97.067	2007-0008	38,578
Sub-total			<u>152,267</u>
State Homeland Security Program 2005 (SHSP)-Law Enforcement	97.073	2005-15	23,149
Terrorism Prevention Program 2005 (LETPP)	97.074	2005-15	11,800
Total Homeland Security Cluster			<u>187,216</u>
Passed-through California Emergency Management Agency:			
Emergency Management Performance Grant FY 06	97.042	2006-0008	18,745
Emergency Management Performance Grant FY 07	97.042	2007-0006	51,112
Sub-total			<u>69,857</u>
Total U.S. Department of Homeland Security			<u>257,073</u>
<u>U.S. DEPARTMENT OF THE INTERIOR:</u>			
Direct Programs:			
Pesticide Monitoring	15.230	A20-254000-252R	10,500
Control of Noxious Weeds	15.230	BCA032004	10,013
Sub-total Direct Programs			<u>20,513</u>
Total U.S. Department of the Interior			<u>20,513</u>
<u>U.S. DEPARTMENT OF JUSTICE:</u>			
Passed-through California Emergency Management Agency:			
Victim/Witness Assistance Program	16.575	VW07120250	30,008
Anti-Drug Abuse Enforcement Program	16.738	DC07180250	109,275
Sub-total			<u>139,283</u>
Total U.S. Department of Justice			<u>139,283</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>			
Highway Planning & Construction Cluster:			
Passed-through California Department of Transportation:			
County Route 87A Bridge Replacement	20.205	BRLO5903(040)	26,563
County Route 87A Bridge Replacement	20.205	BRLO5903(039)	26,320
County Route 61 Bridge Replacement	20.205	BRLO5903(032)	102
County Route 61 Bridge Replacement	20.205	BRLO5903(033)	102
County Route 85 Bridge Replacement	20.205	BRLO5903(028)	223,213
Sub-total			<u>276,300</u>
Total Highway Planning and Construction Cluster			<u>276,300</u>
Direct Programs:			
Airport Improvement Program [1]	20.106	AIP-3-06-0003-04	33,478
Airport Improvement Program [1]	20.106	AIP-3-06-0039-02/03/04/06	327,638
Airport Improvement Program [1]	20.106	AIP-3-06-0264-04	65,075
Sub-total Direct Programs			<u>426,191</u>
Total U.S. Department of Transportation			<u>702,491</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 7,350,350</u>

[1] Denotes a major program

[2] N/A - Not Available

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MODOC, CALIFORNIA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

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NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of the County of Modoc, California (County). The County's reporting entity is defined in Note 1 of the notes to the County's basic financial statements. All financial assistance received directly from the Federal agencies as well as Federal financial assistance passed through other government agencies to the County is included in the accompanying schedule.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting except for programs recorded in the County's enterprise funds, which are presented using the accrual basis of accounting, which is described in Note 1 to the County's basic financial statements.

3. Relationship to Basic Financial Statements

Federal award expenditures agree or can be reconciled with the amounts reported in the County's basic financial statements.

4. Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule agree with the amounts reported in related federal financial reports.

5. Food Stamps

Food stamps expenditures represent the face value of food stamps distributed in the County. They do not represent cash expenditures in the County's basic financial statements for the fiscal year ended June 30, 2008.

NOTE # 2 - AMOUNT PROVIDED TO SUBRECIPIENTS

U.S. Department of Agriculture:

10.665 Secure Rural Schools and Counties	\$ 106,671
Total U.S. Department of Agriculture	<u>106,671</u>

U.S. Department of Health and Human Services:

93.558 Temporary Assistance for Needy Families	25,000
93.674 Independent Living Program	22,359
93.959 Adoption Assistance	<u>23,750</u>
Total U.S. Department of Health and Human Services	<u>71,109</u>

Total Federal Awards Passed Through to Subrecipients	<u><u>\$ 177,780</u></u>
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See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

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I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Disclaimer</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>Yes</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>Yes</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>Yes</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	
<u>Unqualified for all major programs except for Secure Rural Schools and Counties, Temporary Assistance for Needy Families (TANF), Food Stamps Cluster, Substance Abuse and Treatment Block Grant (SAPT) and Medicaid Cluster, which were qualified.</u>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>Yes</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.551, 10.561</u>	<u>Food Stamps Cluster</u>
<u>10.665</u>	<u>Secure Rural Schools and Counties</u>
<u>93.778</u>	<u>Medicaid Cluster</u>
<u>93.959</u>	<u>Substance Abuse and Treatment (SAPT) Block Grant</u>
<u>93.558</u>	<u>Temporary Assistance for Needy Families (TANF)</u>
<u>93.658</u>	<u>Foster Care</u>
<u>20.106</u>	<u>Airport Improvement Program</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Audit Standards.

Finding 2008-1

OVERSIGHT BY THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

Criteria or Specific Requirement

The County is responsible for a system of internal controls which should be designed to provide for the protection of the County’s financial health, funds, assets, and financial reporting systems. The oversight of the County is the responsibility of the Board of Supervisors, various elected officials and the management team of the County. These positions have the responsibility of oversight, establishing, maintaining, and monitoring the internal control systems for the areas under their control. Each of the internal control systems should be designed to ensure that the financial health, funds, assets, and financial reporting systems of the County are protected; resources are used for their specified purposes, and comply with applicable laws and regulations.

As part of a strong governance structure, governmental agencies should have an audit committee. The audit committee should be formally established and have certain responsibilities including, but not limited to, oversight of the governments financial reporting process, ensuring that the government adheres to a strong system of internal controls, and to provide a forum for discussions with the independent auditors and others.

Condition

Those charged with oversight of the County’s financial health, funds, assets, financial systems and internal control systems have not exercised an adequate level of oversight for several years. As noted above, part of this governance structure should include the establishment of a formal audit committee; the County does not have an audit committee. The lack of oversight has led to deficit spending, a deterioration of several of the key internal control systems, a lack of policies for financial reporting, a complex and underutilized financial system, and the severe financial crisis which currently exists.

Deficiencies have been detailed within the following findings:

- Understanding of GAAP/Financial Training 2008-2
- Financial Condition of the County – Going Concern 2008-3
- Unauthorized Borrowing of Funds from the Investment Pool 2008-4
- Financial reporting – fund structure 2008-5
- Financial reporting – fund balance 2008-6
- Budget 2008-7
- Year end closing 2008-8
- Capital Assets & Infrastructure 2008-9
- Information Technology 2008-10
- Policies and procedures 2008-11
- Landfill Closure/Post Closure Liabilities 2008-12
- Segregation of duties 2008-13

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

• Personnel and payroll	2008-14
• Disbursements	2008-15
• Cash collections	2008-16
• Interest apportionment	2008-17
• Authorized signatures	2008-18
• Reconciliation	2008-19
• Reporting of Federal Expenditures	2008-20
• Tax apportionment process	2008-21
• Requirement for Special District Audits	2008-22
• Information & Communication	2008-23
• Cash flow monitoring	2008-24
• Cash and investment reporting	2008-25
• Long term debt	2008-26
• Trust fund accounts receivables and other liabilities	2008-27
• Journal entries	2008-28
• Leases	2008-29
• Investment Policy compliance	2008-30
• Distribution of funds to other governmental agencies	2008-31
• Fraud prevention	2008-32
• Pensions	2008-33
• Compensated Absences	2008-34
• General Ledger – system implementation journal entries	2008-35
• Trust Funds	2008-36
• Interfund Transactions	2008-37
• Financial Condition of the Medical Center (MMC)– Going Concern	2008-38
• MMC: Monthly cash reconciliations	2008-39
• MMC: Approval of journal entries	2008-40
• MMC: Third party settlements	2008-41
• MMC: Capital asset management	2008-42
• MMC: Year-end cutoff proposed adjusting journal entries	2008-43
• MMC: Segregation of duties – payroll	2008-44
• MMC: Segregation of duties – chargemaster	2008-45
• MMC: Supervisory approval of employee labor hours	2008-46
• Federal Award Findings and Questioned Costs	2008-47 through 2008-61

Context

The County operated for the 2007-2008 fiscal year with a governance structure that did not provide for financial and internal control systems that were adequately designed, maintained and monitored.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Effect

The County’s financial health, financial reporting systems and internal control systems have been severely weakened. As a result of these weaknesses the County does not have controls in place that adequately detect and correct misstatements in the accounting system and financial statements. Also, the controls are not properly designed and implemented to monitor routine and non-routine accounting transactions.

Cause

The lack of governance and oversight, lack of adherence to regulatory guidelines and a lack of adequate training has led to material weaknesses in several of the County’s key internal control and financial reporting systems.

Recommendation

The Board of Supervisors must provide for a formal governance structure for the County’s financial reporting and internal control systems. One of the steps to achieve this is the establishment of a formal audit committee. In regards to specific internal control issues noted during the audit fieldwork we have noted that the County has begun the process of implementing new policies and procedures to improve the internal control systems. The County must continue with this process ensuring that the appropriate financial and internal control systems are developed and implemented. In addition the County must provide training for all key employees relating to; financial reporting, and proper use of the County’s financial systems. Additional recommendations are provided within each of the findings as documented in this report.

Views of Responsible Officials and Planned Corrective Action

The County understands and concedes that weaknesses in the above-listed areas exist, and that they have affected the County’s financial reporting and internal controls. Throughout the 07/08 and 08/09 audit process the County has catalogued noted deficiencies and is working to correct the issues. Numerous policies and procedures are in the process of being written, reviewed and implemented. The audit process itself has provided an informal training process for County staff. The knowledge gained will be disseminated to other County staff and elected officials. Additional training, knowledge-transfer and documentation of policies and procedures will strengthen controls and improve functionality of accounting structure. Additional detail can be found in subsequent findings included in this document.

Finding 2008-2

UNDERSTANDING OF GAAP/FINANCIAL TRAINING

Criteria or Specific Requirement

Government Auditing Standards state; “Government managers are responsible for providing reliable, useful, and timely information for accountability of government programs and their operations.” In order to achieve this standard all County managers must be adequately trained.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Condition

County staff did not possess an adequate understanding of prudent financial reporting, internal controls, generally accepted accounting principles (GAAP) and OMB Circular A-133. Also, County staff with financial reporting responsibilities have not received adequate training. To achieve the goal of providing reliable, useful, and timely information for accountability of government programs and their operations County staff must be adequately trained. Training has not been provided in the following areas:

- Governmental Accounting Standards Board (GASB) pronouncements
- Generally Accepted Accounting Principles
- OMB Circular A-133
- Government Auditing Standards
- Laws and regulations
- The financial reporting and internal control systems of Modoc County

We have also noted that the County has not implemented cross training programs.

Context

The County is required to produce several types of reports, communications, and financial statements in order to comply with local, state and federal requirements. County staff must be well trained so that all information is accurate, reliable and timely.

Effect

When employees are not adequately trained the potential for material misstatements in the financial statements, reports, and other communication is significantly increased.

Cause

The County has not implemented training programs.

Recommendation

In order for the County to provide accurate, reliable, and timely information County employees with financial reporting responsibilities must be trained. In addition, as the County has a small staff, cross training is very important. The County must develop and implement a training program which covers all financial and regulatory areas for County staff.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Views of Responsible Officials and Planned Corrective Action

The County is currently working on a policy for accounting staff training at all levels, from departmental fiscal officers all the way to the County Auditor and other elected officials responsible for financial oversight. As funding for training is obviously limited, the policy will rely heavily on knowledge-sharing and group training workshops and webinars. The development of internal control processes and cross-training are inter-related and are being worked on simultaneously. The knowledge gained by accounting staff during the audit will be shared with department staff and elected officials in a series of workshops. Included in these workshops will be training on governmental accounting and regulations and internal controls, as well as basic accounting standards and practices. In addition, training standards will be developed for each job classification that is responsible for accounting functions and/or financial oversight. The County is currently reviewing the possibility of funding an accounting consultant within the long-term financing deal being sought to resolve the deficit balances in the Treasury. See response to 2008-3.

Finding 2008-3

FINANCIAL CONDITION OF THE COUNTY – GOING CONCERN

Criteria or Specific Requirement

The County is responsible for the development, implementation and monitoring of the budget and internal control systems to protect the ongoing financial health of the County.

Condition

The County is currently in a severe financial crisis. The County's General Fund ended the year in a deficit cash position of \$(361,003). For several years the County has utilized the Investment Pool to finance deficit spending relating primarily to the Modoc Medical Center. As of June 30, 2008 the County owed the Investment Pool \$(1,022,116), net or \$(12,103,699) gross. To finance its ongoing operations, the County has utilized cash balances from other unrestricted and restricted funds, and external pool participants. As of June 30, 2008 the County did not have the resources to repay the cash that was taken. (See finding 2008-4 for additional details relating to the unauthorized borrowing of cash from the Investment Pool.)

Context

The County does not have adequate resources to repay the funds which have been borrowed from the Investment Pool.

Effect

The financial condition of the County has been severely impacted.

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COUNTY OF MODOC, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008**

II. FINANCIAL STATEMENT FINDINGS

Cause

The County has funded several years of deficit spending with resources that were borrowed from the Investment Pool. These resources were used to fund the continued operations of the County, primarily the Modoc Medical Center. The County’s internal control system did not adequately prevent funds from incurring negative cash positions without formal borrowing arrangements.

Recommendation

The County must continue to develop and implement a recovery plan.

Views of Responsible Officials and Planned Corrective Action

The County is currently pursuing long-term financing to secure necessary funding to restore the negative balances within the treasury. The Fiscal Year 10/11 budget will reflect the necessary budget reserves to fund debt payments and other fees associated with the financing. Debt service will be paid out of unrestricted funding within the treasury in accordance with the approved budget. Short-term financing , such as Tax Revenue Anticipation Notes will be sought to assist the County in meeting its debt obligations during periods of the fiscal year that are historically low in receipts (i.e. the summer months). All short term obligations will be repaid within the fiscal year.

Finding 2008-4

UNAUTHORIZED BORROWING OF FUNDS FROM THE INVESTMENT POOL

Criteria or Specific Requirement

The County participates in the Treasurer’s Investment Pool with other governmental agencies. Each agency’s deposits are pooled for investing purposes. The County Treasurer maintains systems to track each agency’s balance within the Investment Pool.

Government Code Section 27100.1 states; “Notwithstanding any other provision of law, when any public entity or any public official acting in fiduciary capacity, who is required or authorized by law to deposit funds in the county treasury, makes a deposit, those funds shall be deemed to be held in trust by the county treasurer on behalf of the depositing entity or public official. The funds shall not be deemed funds or assets of the county and the relationship of the depositing entity or public official and the county shall not be one of creditor-debtor.”

In addition Government Code Section 27007 states; “The treasurer shall keep all money belonging to the State, or any county of the State in his own possession until disbursed according to law. He shall not place the money in the possession of any person to be used for any purpose, nor shall he loan or in any manner use, or permit any person to use it, except as provided by law. This section does not prohibit him from making special deposits for the safe-keeping of public money, but he is liable therefore on his official bond.”

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

II. FINANCIAL STATEMENT FINDINGS

Condition

For several years that County has borrowed monies from the Treasurers Investment Pool to finance ongoing operations primarily relating to the Modoc Medical Center. Formal borrowing agreements have not been executed. The balance owed to the Investment Pool at June 30, 2008 is \$(1,022,116), net or \$(12,103,699) gross. The County does not have the ability to repay the amount outstanding.

Context

The County has borrowed resources from the Investment Pool to finance ongoing operations primarily of the Modoc Medical Center.

Effect

The County has not complied with Government Code Sections 27100.1 and 27007 and has borrowed resources from the Investment Pool. These resources were primarily used to finance the ongoing operations of the Modoc Medical Center. The County does not have the ability to repay the funds that were borrowed.

Cause

The County has funded several years of deficit spending with resources that were borrowed from the Investment Pool. The County's internal control system did not adequately prevent funds from incurring negative cash positions without formal borrowing arrangements.

Recommendation

The County must continue to develop and implement a recovery plan.

Views of Responsible Officials and Planned Corrective Action

As stated in the previous finding, the County is seeking financing to restore the deficit balances in the treasury. A combination of a revised administrative and management structure, strengthened internal controls and a training program for staff and elected officials will prevent unauthorized borrowing in the future. If the financing plan is successful, the covenants of the agreement will require periodic reporting and disclosure of financial data that will vastly increase the transparency of the County's financial position. These enhancements will further strengthen the County's controls.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Finding 2008-5

FINANCIAL REPORTING – FUND STRUCTURE

Criteria or Specific Requirement

The accounting system is one of the key components of an integrated internal control system. The accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances/net assets, revenues, and expenditures/expenses.

The County maintains several fund types including; governmental funds which include; the general fund, special revenue funds, capital project funds and debt service funds. In addition the County maintains enterprise funds and fiduciary funds. Certain fiduciary funds are utilized in the County’s accounting system for internal tracking purposes; these funds must be reclassified as governmental funds for financial statement reporting purposes.

GASB Statement No. 34 identified the following with respect to fiduciary funds: “Separate fiduciary fund statements (including component units that are fiduciary in nature) also should be presented as part of the fund financial statements. Fiduciary funds should be used to report assets that are held in a trustee or agency capacity for others and that cannot be used to support the government’s own programs.”

If trust funds are used for internal tracking, as noted above these must be reclassified as part of the year-end closing process for financial reporting purposes.

Condition

We noted deficiencies related to the County’s fund structure:

- The County does not have a formal chart of accounts or a fund mapping for all of the funds maintained by the County. A printout can be obtained of fund numbers and names but the listing does not identify the fund type or a fund mapping showing how the funds should be rolled up for financial statement reporting purposes.
- The County uses trust funds, also referred to as T and A funds (fiduciary funds), to account for certain proceeds. As noted in the criteria section above, fiduciary funds cannot be used to report assets that are used to support the governments own programs. The County had not performed the necessary reclassification of these funds to governmental funds for financial reporting purposes as required by GASB Statement No. 34.

Context

The County did not have policies/procedures and the accounting system was not set up to address the reclassification of funds during the year end closing process.

Effect

The County’s financial reporting system was not set up to report financial information in accordance with GASB Statement No. 34.

COUNTY OF MODOC, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008**

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II. FINANCIAL STATEMENT FINDINGS

Cause

The County had not developed policies and procedures for the year end closing process.

Recommendation

Once the County was notified of the issue relating to internally used trust funds, County staff began the process of reclassifying the trust funds to governmental funds for financial reporting purposes. During this timeframe/process the County began to develop policies and procedures relating to this aspect of the year end closing process. We recommend that the County continue to refine the year end closing process to include this aspect of the financial reporting process. We also suggest that the County prepare a formal chart of accounts for the fund structure which defines fund type, purpose, and how the specific funds should be presented for financial reporting purposes. As part of the closing process the County should also reconcile all County funds to the draft financial statement to ensure accuracy of reporting before the financial statements are finalized.

Views of Responsible Officials and Planned Corrective Action

During the 07/08 audit, the County created and documented a fund mapping system. Policies and procedures for maintaining the mapping structure, adding and/or deleting funds, and disseminating the information to departments are currently being developed. The funds were identified as to which cost center they belonged, the nature of the monies and any restrictions on the monies. These determinations were taken into account when staff consolidated the funds into the financial statements. The final fund structure, as well as assets and liabilities as stated in the draft financial statements were verified by County staff.

Finding 2008-6

FINANCIAL REPORTING – FUND BALANCE

Criteria or Specific Requirement

The accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances/net assets, revenues, and expenditures/expenses. Fund balance is the measure of equity maintained by the County for each fund (i.e. separate accounting entity). Fund balance also serves as a control to ensure that the financial results of one fiscal year are not reported in a different fiscal year. Adjustments or transactions directly to fund balance accounts should not be performed unless specifically allowed by generally accepted accounting principles. Further, fund balance should be reconciled annually to ensure that all transactions, reclassifications and adjustments have been posted in the correct fiscal period.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Condition

We noted that the County's General Fund and various other funds trial balances did not balance. The accounting system was set up to utilize both actual account balances and budgetary accounts. The actual account balances identify the fund balance actually realized by the County. The budgetary accounts identify the estimated fund balance based on budgeted results. In theory the budgetary accounts should zero out at year end. The budgetary accounts did not balance to zero and this caused the financial system to be out of balance. It appears that this condition has existed for several years.

It was further noted that the County had not reconciled its fund balances.

Context

The County did not have policies/procedures relating to the setup, use, and reconciliation of the actual and budgetary accounts.

Effect

The County's general ledger was out of balance.

Cause

The County had posted amounts to the budgetary balances at some point which caused the trial balances to be out of balance.

Recommendation

The County should develop policies and procedures to ensure that staff are trained on the use of the various aspects of the accounting system.

Views of Responsible Officials and Planned Corrective Action

Most of the issues in regards to the budgetary fund balances were determined to be a direct result of the transition between financial software packages, and a lack of training on the new software. In the old system, certain end-of-the-year balances had to be carried over into the new year by manual journal entries. The current (new) software package does not require manual entries. A lack of trained staff resulted in the imbalances being carried forward into the current fiscal year (09/10). Adjustments were made to the 07/08 financial statements to correct the imbalances and these adjustments will be made in the current year to rectify the out-of-balance accounts. Staff will be trained as to which accounts do not require manual entries. In addition, County staff is working with the software provider to restrict access to certain accounts that should never require manual entries (control accounts).

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Finding 2008-7

BUDGET

Criteria or Specific Requirement

The budget is an essential element of sound financial management. The Government Finance Officers Association (GFOA) notes “State and local government budgets serve three essential purposes: 1) to set public policy, 2) to act as a legislative control on taxing and spending by the executive branch, and 3) to serve as a financial planning tool. The first two objectives are unique to the public sector.”

The County prepares an annual budget; this budget process should ensure that a balanced budget is approved and monitored each fiscal year. Once the budget is approved the budget process should also include:

- Entering the approved budget into the County’s financial systems in a timely manner.
- Amending the budget when necessary due to changing economic conditions and/or other considerations.
- Utilization of the budget system for ongoing monitoring throughout the fiscal year.
- Budget verification for individual transactions.

The budget tracking system should also be used for various budget monitoring activities including but not limited to, use by the departments to monitor spending and by the Auditor’s office to ensure that adequate budgets exist before invoices are processed for payment.

Condition

We noted the following deficiencies:

Budget preparation:

- Columns in the County’s budget books which were labeled as actual are the prior year’s budget amounts.
- During the budget preparation process the County has not used beginning fund balance numbers as the starting point of the budget; amounts based upon the cash and accounts receivable balances appear to have been used. This method does not consider obligations by the County (accounts payable, other liabilities, etc) and thus overstates appropriable resources.
- The County does not use an encumbrance system.
- Based upon our inquiry, it appears that one time revenues may have been used to justify the addition of ongoing expenditures.

Budget Monitoring:

- Budgets are not posted into the County’s financial system until approximately December of each fiscal year. Thus, budget to actual monitoring is only performed for the 2nd half of the fiscal year.
- It appears that budgetary comparisons have not been presented to the Board of Supervisors throughout the fiscal year for monitoring purposes.
- Based upon our inquiry with County staff transactions were at times allowed to exceed the budget if the fund/department had sufficient cash balances.
- As discussed in the disbursements finding 2008-15 due to the system used by the County to process disbursements ongoing budget monitoring is difficult.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

- Departments do not have read only access to the accounting/budget system, they must wait for monthly data to be prepared by the Auditor's office.
- The County does not have a system to ensure that payments are not released until the appropriate budget transfer/amendments have been processed.

Governance relating to the County's budget:

Based upon our inquiry with County staff: It appears that the County Administrator Office (CAO) has been charged with the responsibility to prepare the County's budget. The CAOs office works with the County departments to develop and balance the County's budget. Once prepared the budget is submitted to the Board of Supervisors for approval.

Also based upon our inquiry, it appears that departments can report directly to the Board of Supervisors when processing requests for budget amendments. This appears to be an inconsistent line of authority. If the Board is charging the CAOs office with the responsibility to prepare and balance the budget it should also require that budget amendments be processed through the CAOs office for recommendation, and checked for accuracy and proper funding before they are submitted to the Board for consideration and approval.

Context

The County's budget is one of the key controls which can be used to monitor the ongoing financial health of the County.

Effect

As a result of the weaknesses in the County's budgeting system the possibility exists that budget overruns could occur and not be detected in a timely manner.

Cause

The County does not have procedures in place which allow for timely review and proper reporting of budget to actual comparisons at the appropriate level. In addition, the County does not use an encumbrance system, thus increasing the risk of overspending.

Recommendation

The County should review the budget preparation process, the lines of authority to amend the budget and how the budget will be monitored on a timely basis. In addition a structure should be developed requiring departments to report at least monthly on the status of the budget. To achieve this; the departments should be provided access to the financial system (read only) so that timely and accurate information is available to monitor and report on the status of each departments budgets. The County should also consider implementing an encumbrance system. Procedures should be developed relating to how accounts payable are processed to allow for increased budget monitoring while processing disbursements. We also suggest that the budget amendment forms should be updated to clearly show the net county cost of all budget revisions.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Views of Responsible Officials and Planned Corrective Action

The County is currently developing policies and procedures to enhance the budget preparation and monitoring processes. As stated above, the lines of authority as to budget compilation and monitoring have historically been unclear. This is likely due to a lack of training and understanding in regards to the budget process. Specific budget preparation and monitoring procedures will assign duties to individual staff positions. Auditor's staff and general accounting staff will be trained to understand the budget process and the procedures for monitoring budget to actual amounts during the year. The County is currently working with the software provider and the IT Department to provide Departmental fiscal staff with view-only privileges to the financial system. This will allow the Auditor's Department to disseminate information in much more efficient manner, create additional controls as to the balancing of cash, and vastly improve the monitoring of payables and receivables. A process for using the encumbrance system, which is already built into the software package, is being reviewed.

Responsibilities for budget amendments have been equally unclear in the past. These duties are being assigned to specific positions, and controls are being implemented that will allow for checks and balances to prevent errors and provide adequate documentation. This will allow County staff to efficiently and effectively monitor budget to actual values during the year.

Finding 2008-8

YEAR END CLOSING

Criteria or Specific Requirement

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein and for the fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. This requires management to work through a year-end closing process to accumulate, reconcile, and summarize information for inclusion in the annual financial statements. The year-end closing process includes the review and/or reconciliation of all balances within the County's general ledger. Accounts must be reviewed for proper cutoff, classification and presentation. These processes should be complete before the external auditors begin the final fieldwork.

Condition

We noted the County did not have formal year-end closing procedures. As a result, the following deficiencies within the County's year end closing process were noted:

- The County utilized a cutoff period of three (3) weeks for the accounts payable. Invoices processed after the three week time frame were accounted for in the subsequent fiscal year regardless of when the goods and/or services had been received. No additional procedures were applied to evaluate items requiring accrual.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

- Prior year receivable balances were not reviewed during the year-end closing process. In the current year when receivables were accrued they were not established as auto-reverse entries. Therefore the only way to clear the receivable was to track actual cash receipts and apply them to the specific receivable in the subsequent period. The audit trail which is used to perform this function is diluted as the receivables are entered in batch and carried forward in the aggregate. (Thus making it very difficult to trace actual cash receipts back to the corresponding receivable). This accounting methodology increases the risk that receivables are overstated and carried forward from one fiscal year to the next.
- In addition, based upon our inquiry; County staff enter the receivables in the “receivable” module and then enter the cash receipts in a different module, again increasing the risk of overstatement.
- Receivables are accrued as requested by departments; at times the documentation provided to support the receivable was unclear.
- The County’s period of availability was defined as 60 days. The County noted that the period for state and federal grants is 6 months. (The prior year financial statements noted both at 60 days). In general the County did not utilize deferred revenues to comply with the period of availability. Thus, revenues were overstated in the governmental funds as the County was not deferring the revenue if it exceeded the period of availability.
- The year-end balances for compensated absences could not be located.
- We noted that the cash balances are reconciled monthly between the Treasurer’s office and the Auditor’s office. We also noted that the June reconciliation had two funds that did not balance. It appears that these differences have existed for several years based upon our inquiry.
- The County did not reconcile the payroll expenditures per the County general ledger to the payroll tax returns.
- The County did not mark investments to fair market value in accordance with GASB Statement No. 31.
- Capital assets and infrastructure balances and activity were not properly recorded.
- Warrants payable per the general ledger was not reconciled to the actual amount of warrants outstanding.
- The County did not post the necessary journal entries to adjust the inventory balances per the supporting documentation to the general ledger inventory balances.

Context

The County did not have a comprehensive year-end closing process. In addition as discussed in finding 2008-2 County staff were not adequately trained on the year-end closing process.

Effect

As a result of the year-end closing process that was used by the County, the financial information provided contained several material misstatements.

Cause

The County did not perform a complete year-end close for the fiscal year ended June 30, 2008.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Recommendation

As a result of the audit fieldwork the County began to address the above noted items. The County must continue to develop a comprehensive year-end closing process. This process should include detailed checklists to ensure that each financial statement area is reconciled, balanced and reviewed during the closing process. The closing process manual should also detail specific assignments, staff and timelines to complete the process. After each area has been closed by staff it should go through a review process to ensure accuracy. Each of these steps should be documented and signed off on the comprehensive checklist.

In addition the County should provide staff training on the year-end closing process to ensure that all areas have been adequately addressed.

Views of Responsible Officials and Planned Corrective Action

Formal year-end closing procedures are currently being developed by the County. As stated above, most of the bulleted items listed were addressed for both the 07/08 and 08/09 audits. The County is currently working to document these procedures. Once documented, the County will begin implementing the new procedures for the close of the current fiscal year. Accounting staff will be trained and closely monitored for compliance with the new procedures. While the changes will take time and significant training, including one-on-one training for upper level accounting staff, workshops for departmental staff, and possibly a consulting firm to assist the County with the process, the County will continue to move forward and improve the process.

Finding 2008-9

CAPITAL ASSETS & INFRASTRUCTURE

Criteria or Specific Requirement

The provisions of GASB Statement No. 34 require the County to report both capital assets and infrastructure in the government wide Statement of Net Assets, net of depreciation or amortization as applicable.

For the infrastructure component GASB Statement No. 34 requires that the determination of major general infrastructure assets should be at the network or subsystem level and should be based on these criteria:

- The cost or estimated cost of the subsystem is expected to be at least 5 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999, or
- The cost or estimated cost of the network is expected to be at least 10 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.

These parameters establish the criteria for the inclusion of infrastructure in the County's financial statements. GASB 34 allowed governments to estimate historical cost for the infrastructure if historical cost was not available.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Condition

Infrastructure:

The County's analysis of infrastructure was performed and recorded in the June 30, 2007 financial statements. The initial documentation provided by the County included the following categories; roads, bridges, culvert and signs. We noted the following deficiencies when testing the infrastructure calculations:

Roads:

- As noted above GASB 34 allowed governments to use estimated historical cost if actual historical costs are not available. The first reports provided by the County contained several errors. A second report was provided. The assumptions on the second report appeared to overstate the estimated historical cost of the County's roads, therefore, adjustments were proposed. Immaterial differences exist in the total number of miles of roads (paved and unpaved) within the County.

Bridges:

- The accumulated depreciation calculated by the County was for the fiscal year end June 30, 2007. The number of years used to calculate the accumulated depreciation had not been updated for the 2007-2008 fiscal year.

Signs and Culverts:

- Data was presented for the County's signs and culverts. The total estimated historical cost for each of these categories was below the network and subsystem levels as defined above. As the basis for determining historical cost was based upon very broad assumptions; and considering that the estimated value was below the thresholds established by GASB 34 the County decided not to include these in the infrastructure listing.

Capital Assets:

- The County has maintained two systems to track the capital assets. The first is a manual card system and the second utilizes a module of the financial accounting software. To provide the capital asset detail the County had to reconcile both systems and create a separate Excel based worksheet. We noted the following deficiencies:
 - The County does not have a formal policy specifying the useful life for each asset category.
 - The County changed the capitalization threshold from \$500 to \$5,000.
 - The useful life was not included within the accounting system module and therefore the system could not calculate depreciation.
 - The assets on the original listing did not have an identifier specifying classification for financial reporting purposes. (Land, buildings, equipment, etc.)
 - Annual certifications are performed to provide evidence of the assets existence, but the County has not performed an analysis to support the asset's valuation.
 - The County does not have a policy to track capital assets purchased with federal funds. Thus, the County is unable to determine which assets were acquired with federal funding, if any.
 - We noted one instance where depreciation had been taken on a parcel of land. Upon further investigation the County was unable to locate supporting documentation for this parcel of land and it was subsequently deleted from the capital asset listing.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

- The County was unable to find supporting documentation for certain assets selected for testing to support the valuation of the capital assets.
- It also appears that the County has not been amending the original asset when upgrades and/or reconstruction takes place that will extend the assets useful life.

Context

The County is required to track both infrastructure and capital assets for financial reporting purposes.

Effect

The capital assets and the County's infrastructure were materially misstated.

Cause

The County did not review and/or update the capital asset and infrastructure listings as part of the year-end closing process.

Recommendation

Once the issues were identified the County reconciled and adjusted the balances of capital assets for inclusion in the annual financial statements. The County should establish policies and procedures for the accounting and tracking of both infrastructure and capital assets throughout the year. In addition these areas should be added to the comprehensive year-end closing checklist and reconciled as part of the closing process.

Views of Responsible Officials and Planned Corrective Action

As a part of the year-end closing procedure, the County is developing a process to verify capital assets at year-end, as well as during the fiscal year. The County does have an existing process; however it has never been documented and is not comprehensive and consistently followed. The County will enhance the process, document the process, and train involved staff.

Finding 2008-10

INFORMATION TECHNOLOGY (IT)

Criteria or Specific Requirement

The County's IT system is a key element of the County's internal control system. The County's IT strategic plan and policies should address the following:

- An IT strategic planning and risk management process should be in place to support financial reporting requirements.
- Reliable systems should be maintained that include appropriate data backup and recovery processes.
- Physical security and access to programs and data should be appropriately controlled to prevent unauthorized use, disclosure, modification, damage, or loss of data.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

- Program changes and systems acquisition and development should be appropriately managed to ensure that the application software adequately supports financial reporting objectives.

Condition

We noted the following deficiencies:

- The County does not have a countywide IT strategic plan.
- For the servers that do not have continuous backup, the County stores the backup tapes on a shelf and then over the weekends the backup tapes are taken home with a County employee.
- The financial system server in the Auditor's office was susceptible to theft and damage based on where it is stored.
- For the County's financial system we were unable to determine when the last backup had been performed. The employee responsible for the backup was no longer with the department and the department did not have evidence of when the last backup was performed.
- The financial system reflects users who have retired or are no longer with the County.
- The County does not have a countywide formalized Information Technology plan which provides policies and procedures for security, passwords, user access, disaster recovery, physical security, etc. These elements are key to ensure that the County's data is adequately safeguarded.

Context

The County's IT security is a key element of the County's overall internal control system.

Effect

Without consistent policies and procedures the County is at risk of unauthorized use, disclosure, modification, damage, or loss of data.

Cause

The County has not worked with the various IT/data users to develop a comprehensive IT plan.

Recommendation

In order to protect the County's data a comprehensive countywide IT strategic plan should be developed. The plan should cover at a minimum disaster planning, backup, recovery of data, physical security, user access, and standards for updates and/or upgrades.

Views of Responsible Officials and Planned Corrective Action

In regards to the deficiencies identified please see the following comments:

1. A formal countywide IT strategic plan has not been created, however we do have a majority of the components necessary to formulate this plan. Time will be needed to bring all of the elements together.
2. Many servers are backed up to a central backup server which is then backed up by tape. Those tapes are stored in a locked cabinet in the IT office and rotated off site to a locked data safe located at the IT director's house. This process should be amended by installing a data safe on-site at the IT office and

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rotation of off site storage should go to a data safe deposit box at a local bank or similar secure off-site storage.

3. The Fiscal system has been relocated in a raised locked enclosure to mitigate theft, tampering or damage to the system.
4. The Fiscal system backups are managed by auditor’s office staff. The staff member responsible rotates the tapes from the fiscal system to the safe in the treasurer’s office. The backup is performed nightly (excluding Saturday and Sunday). This process has been amended to include the notification to the IT department via email should the backup fail to complete successfully.
5. While the financial system reflects users that have retired, the access for those accounts had been disabled. The system is designed such that removal of the accounts is not recommended rather that the accounts be disabled to prevent access on said account. This is the process that has been implemented for discontinued accounts.
6. As noted the county does not have a formalized technology plan. The core of this plan has been drafted and suggestions to adopt the Best Practices and Policies documents originally produced by the California Counties Information Systems Director’s Association (CCISDA) has been presented to the County Technology Committee, however completion of this plan and presentation to the board of supervisors has not been done.

The County’s first order of business will be to complete the technology plan in conjunction with an expanded strategic plan and present this plan to the board of supervisors for approval. Once drafted, both plans will be reviewed by the technology committee, which should be expanded to include a broader range of department involvement. The County has an existing preselected subset of policy documentation from the CCISDA that will be quickly adapted and implemented without waiting for the completion of the strategic plan. This allows for an immediate response while the other plans are being developed.

Finding 2008-11

POLICIES AND PROCEDURES

Criteria or Specific Requirement

The County should have policies and procedures for each of the key internal control systems. These polices should address:

- Control Environment; tone at the top, including the oversight of those charged with governance.
- Risk Assessment; the identification of risk, the process and/or procedures to address and manage risks (including fraud risks).
- Information and Communication; the policies should address how information is captured for financial reporting; and how the County will ensure effective communication will be maintained at all levels relating to the flow of information for financial and/or compliance reporting.
- Control Activities; outlining the specific and detailed procedures which will be followed for each internal control system.

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Condition

The County does not have formal written policies and procedures. We have noted that many of the specific procedures followed by the County are based upon historical processes which have been passed down verbally from employee to employee. Some of the specific areas which will need to have formal policies and procedures developed include: cash receipting, disbursements, payroll, human resource, budget, information technology, capital assets, federal and state grant reporting, and financial reporting.

Context

The County has procedures that are followed as they relate to the key internal control systems, but these procedures are not written, have not been reviewed, documented and/or updated for several years.

Effect

The internal controls of the County are weakened. In addition the County is at risk if certain employees were to leave the County as many of the controls/systems are focused around specific employees that possess the detailed understanding of the systems.

Cause

The County has not reviewed and/or documented in writing several of the key business processes. In addition the County has not provided cross training for some of these areas.

Recommendation

The County should begin the process of the review, development, documentation and implementation of countywide policies and procedures. In addition, County departments should work through the same process to ensure that all business practices address appropriate risks, internal controls are properly designed and documented, staff are properly trained, and that cross training is taking place. The information obtained at the department level should then be worked into the countywide policies and procedures.

Views of Responsible Officials and Planned Corrective Action

As stated in previous and subsequent findings, the County is working on numerous policies and procedures to including, but not limited to the following:

1. Internal Controls
2. Payroll and human resources
3. Fraud prevention
4. Information Technology (processes and controls)
5. Budget preparation and monitoring
6. Payables processing
7. Year-end closing
8. Training (from the top down), and cross-training of duties
9. Risk management

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Finding 2008-12

LANDFILL CLOSURE/POST CLOSURE LIABILITIES

Criteria or Specific Requirement

The County owns several landfills. GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs* provides guidance relating to how the liabilities for these landfills are to be presented for financial reporting. Paragraph 4 of GASB 18 provides guidance that landfill owners and operators are required to recognize a variety of costs to provide for protection of the environment both during the period of landfill operation and during the postclosure period. These include the cost of equipment and facilities (such as leachate collection systems and final cover) as well as the cost of services (such as postclosure maintenance and monitoring costs).

Condition

The County has not considered the liabilities for landfill closure and post closure care costs within the financial reporting structure.

Context

The County operates several landfills and has closure and post closure liabilities. The accounting recognition under GASB 18 is designed to identify the County's obligations for the closure and postclosure care costs of its landfills. By identifying the liability for such costs, the County can understand the impact of these liabilities on its financial position and develop an appropriate financing plan.

Effect

The County has not included the appropriate liabilities as required by GASB 18 in the financial reporting process.

Cause

The County was unaware of the financial reporting guidelines as required by GASB 18.

Recommendation

The County should add to the year-end comprehensive closing checklist the analysis of the annual closure and post closure care costs for each of the landfills.

Views of Responsible Officials and Planned Corrective Action

Once apprised of the GASB 18 requirements, County staff collected the necessary information and provided the figures to calculate the liabilities as required. Within the year-end closing procedures there will be a checklist and "how-to" process for calculating this value and maintaining the necessary records.

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Finding 2008-13

SEGREGATION OF DUTIES

Criteria or Specific Requirement

A proper segregation of duties should include different employees performing the initiation, recording, approval of the transactions and custody of the asset.

Condition

We noted the following deficiencies:

Payroll:

We noted a lack of segregation of duties between the personnel and payroll functions. Employees have the ability to update pay rates, process payroll and process the payment of payroll without approval. We also noted that certain employees can update vacation and sick time without approval.

Personnel:

There is a lack of segregation of duties between personnel and payroll. Employees who have access to the payroll module also have access and the ability to edit the employee master files. We also noted that department heads have the ability to approve their own change of status forms. These forms provide the authorization for the employee's rate of pay.

We also noted that all changes to the payroll system and that the creation of all employees within the HR system can be entered by one employee. These entries are not reviewed and the system does not generate a change report documenting the changes which have been entered.

Treasury functions:

The Treasury functions and the Auditor's functions should be segregated. Although it was asserted by both the Treasurer's office and by the Auditor's office that individuals from each department could only update modules with their functional responsibilities, we noted that the Auditor's office has the ability through the financial system to post to the Treasurer's module.

Other:

As noted above we have provided specific instances where a lack of segregation of duties exists for payroll, personnel and treasury functions. We have also noted an overall lack of segregation of duties in other areas including but not limited to:

- Creation of vendors in the procurement system
- Procurement and disbursements

Context

Segregation of duties whether through physical or electronic systems must be in place to prevent the unauthorized access, approval and use of the County's assets.

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Effect

The County's internal control systems are weakened and proper safeguards are not in place to protect the assets of the County.

Cause

The County has not reviewed and/or tested the segregation of duties.

Recommendation

The County must provide for an adequate segregation of duties. While the County has limited staffing it is possible to structure internal control systems to provide for the proper safeguarding of County systems and assets. The County should work with all departments to implement these controls and also develop a countywide process for the development, implementation and review of these controls.

Views of Responsible Officials and Planned Corrective Action

Payroll: Once the County became aware of the control deficiencies, controls were implemented immediately in several areas, and are being reviewed and considered in others. Payroll controls were instituted immediately during the audit. Changes include required "second signatures" and verification on every step within the payroll process. Check stock is now kept locked in the safe, and only supervisory personnel (that aren't responsible for daily payroll activities) within the office have access to the combination. Checks can only be signed out to the Payroll staff upon presentation of pre-calc reports (including a check log) that states the number of checks required for printing. Changes in pay rates can now only be made by human resource staff (CAO's office), which does not have access to process payroll. Payroll staff's system access is now limited, and does not include access to pay rates and employee master files.

Personnel: Human Resources (CAO's Office) is responsible for editing master files. Payroll staff does not have access to master files. In regards to change of status forms, we are developing and implementing requirements that will not allow any County personnel to authorize and/or sign their own change of status forms. Elected Officials, including County Supervisors will be required to obtain authorization and signature from the Board of Supervisors before any changes of status will be processed.

Treasury Functions: County staff are currently reviewing system privileges for both Auditor and Treasurer personnel. As stated earlier, written policies that will detail which privileges within the system can and will be afforded to each individual job classification are being developed. A segregation of Treasurer's and Auditor's duties will be reviewed in detail, and controls strictly observed and enforced.

Other: As stated above, controls are being reviewed and implemented as quickly as possible. System privileges, including the ability to enter vendors, process checks, and write warrants have already been analyzed and new procedures and controls are currently being implemented.

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Finding 2008-14

PERSONNEL AND PAYROLL

Criteria or Specific Requirement

Government Auditing Standards note that management is responsible for implementing systems designed to achieve compliance with applicable laws and regulations; and for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported.

The County is responsible for the maintenance of a personnel and payroll system.

Condition

We noted the following:

- As noted in finding 2008-13 there is a lack of segregation of duties within the County's payroll process. In addition the County does not have mitigating controls to compensate for the lack of segregation of duties within the payroll process.
- The County was unable to locate the change of status forms for several employees to support the rate of pay. The change of status forms provide documentation for the pay rate and the account code which should be charged in the payroll system.
- As noted above the change of status form is used to document where payroll costs should be charged. We noted an employee that was charged to multiple funds, the approval for this was not indicated (approved) on the change of status form.
- We noted that there is a class of employees for whom the County's Board of Supervisors does not approve the hourly pay rate. Department heads can independently set the hourly rate when extra help employees are needed.
- During our review of the payroll calculations we noted that the County is not withholding or paying State Disability or State Unemployment Insurance for the Cemetery employees.
- We also noted that the County is not calculating the amount of State Disability and State Unemployment Insurance withholdings correctly. Specifically, wages paid for on call time are not included and refunds of union dues have been included in the calculation of gross wages.
- All compensated absences are keyed into the system for the month following the month in which payroll was processed, as such yearend compensated absences taken are not recognized the following month.
- One of the employees selected for testing earned a salary and in addition provided additional services for the County after the regular work day. This additional work was paid using overtime hourly rates. The employee's salary increased, but the increase was not applied to the hourly rate for the additional services.
- The County has not reconciled payroll expense per the County's general ledger to the payroll reported on the County's payroll tax returns.
- The County manually keys in nearly 400 timesheets per month.

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Context

Controls relating to the human resource management and the payroll systems should be in place and County staff should be trained on the use of these systems. We noted the weaknesses in the internal controls during our testing of the County's payroll and personnel systems.

Effect

Some of the County's personnel files did not contain adequate documentation to support rate of pay and approval for where payroll costs should be charged. In addition some payroll withholdings have been calculated incorrectly.

Cause

The County did not maintain up to date personnel files.

Recommendation

The County should ensure that appropriate documentation is maintained in the personnel files, provide training for payroll employees and review the policies and procedures relating to personnel and payroll. The County should also research alternative methods for entering monthly timesheets.

Views of Responsible Officials and Planned Corrective Action

The following responses are in reference to the bulleted list above, in order:

- In regards to segregation of duties, see response to 2008-13 above.
- In regards to personnel files, the County is developing a revised procedure for maintenance of personnel files. A central repository will be kept at the Administrative Office. Copies of any payroll related items will be kept and maintained within the Auditor's Department. New payroll procedures will require a sign-off from the Human Resources (Admin) department before they are processed by Payroll.
- In regards to change of status (employee charged to multiple funds) see response above.
- Pay rate schedules will be developed, and approved by the Board of Supervisors for extra help employees and will be maintained by the human resources department in conjunction with the Auditor's Office.
- The County is looking into the SDI and UI issues with the Cemetery District employees. Preliminary investigation resulted in the districts providing documentation that the employees were exempt from current regulations, as they were hired prior to the adoption of current labor laws.
- In regards to the incorrectly calculated SDI and UI withholdings, it was determined that the issue arose when the new software system was put into place. The miscalculations identified by the 07/08 audit were immediately rectified. Staff is currently reviewing all system pay codes to ensure that no other miscalculations have happened or could potentially occur.

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- Compensated absences were calculated and documented for the 07/08 and 08/09 audits. These records will be maintained in the future and processes and procedures will be developed to maintain them. Staff will be trained as the preparation of year-end documentation, and how the values should be entered into the system and presented on the financial statements. In regards to the overtime hourly rate that doesn't reconcile to the base wage, the employees in question are filling two completely different job classifications. For example, an Office Assistant in the Probation Department works after hours as a transporter. Her duties as a transporter are in no way connected or similar to her duties as an Office Assistant. The County has worked with a Human Resource consultant to determine the appropriate measures necessary to ensure that the employees are being paid correctly. In the above example, the original "overtime hourly rates" were calculated based on the employee's regular wage at the time they were hired as extra help in addition to their existing position. However, those hourly rates were frozen at that particular amount. The County is currently developing a pay schedule as stated above for extra help. This will eliminate the inconsistency across departments and standardize pay rates. Also, the County is developing a check list to determine whether an employee is eligible to receive pay as an extra help employee in addition to being a full time employee.
- The County is working to reconcile the differences between the payroll upload and the General Ledger.
- The County has developed checks and balances to avoid errors in time sheet entry. The timesheet totals are first entered into a spreadsheet, and then entered into the financial system. The system prints and edits report, which is then reconciled to both the spreadsheet and the financial system by payroll staff. The Assistant Auditor then reviews and signs off on the reconciliation. The County is looking into utilizing an outside Payroll firm that will help to eliminate or decrease the necessity for manual timesheet entries.

Finding 2008-15

DISBURSEMENTS

Criteria or Specific Requirement

Government Auditing Standards note that management is responsible for implementing systems designed to achieve compliance with applicable laws and regulations; and for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported.

The County is responsible for the maintenance of adequate systems to process cash disbursements.

Condition

We noted the following deficiencies:

- The County has not utilized several of the automated aspects within the financial system. For example, the input of invoices is limited to the collection and input by the Auditor's Office. Accordingly, invoices are input in batch which does not allow the ability to: review activity by invoice; utilize automated features to prevent the payment of duplicate invoices or streamline the invoice input process by extending this feature to County departments.

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- ISAWS checks are printed from a separate system and then manually rekeyed (check by check) into the County's financial system.
- Invoices are keyed by staff on an Order to Draw (OTD) basis. Only the OTD is keyed into the financial system for all countywide invoices. Therefore, specific invoices cannot be accessed within the financial system as several invoices are typically combined into an OTD. As a result the County does not have the ability to generate an accounts payable aging report or search the financial system for specific invoices.
- The County's only control to avoid duplicate repayment of invoices is a paid stamp. If the vendor were to submit an additional invoice, the system would not catch the duplicate payment due to the use of the OTD as discussed above. The only control to prevent repayment would be the memory of County staff.
 - The financial system does allow for departments to have read only access and input invoices into a holding account. This feature could be utilized to streamline and improved the financial reporting process. The Auditor would still retain the right to approve payment before check issuance and GL recording.
- We also noted that there is not a standard policy and procedure for procurement and disbursements. The use of formal requisitions, purchase orders, bid documentation is inconsistent throughout County departments.

Context

Controls relating to the cash disbursement systems should be in place and County staff should be trained on the use of these systems.

Effect

As a result of the weaknesses in the County's internal control systems relating to cash disbursements errors could occur during the processing of the disbursements.

Cause

The County has not utilized the features of the financial system and has not implemented countywide systems for the processing of disbursements.

Recommendation

The County should review the internal controls relating to the processing of cash disbursements within the Auditor's office and on a countywide basis.

Views of Responsible Officials and Planned Corrective Action

The Auditor's Office has since developed and implemented an Accounts Payable Handbook. The Handbook institutes a standardized Order to Draw (OTD), and requires invoices to be listed separately with corresponding amounts on each OTD. Invoice numbers are entered for EVERY invoice paid, and therefore duplicate invoices entered into the system can be monitored and eliminated during the verification process. The system denotes a flag warning whenever a paid invoice is entered again. The Auditor's Office will continue to develop new and revised policies and procedures that will further organize the process and fully utilize the sophisticated safeguards available through the software system.

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The ISAWS system has been replaced by C-IV. The same basic process applies, as checks are manually reentered into the County system. There is the possibility of an automated interface program that would upload the checks into the accounting system. The County chose options during the C-IV implementation process to allow this process, however an analysis of the cost of the programming and maintenance required versus the number of checks processed resulted in a decision to wait until more funding or more staff was available. The County continues to research options to further automate the process and mitigate manual entry.

Finding 2008-16

CASH COLLECTIONS

Criteria or Specific Requirement

Government Auditing Standards note that management is responsible for implementing systems designed to achieve compliance with applicable laws and regulations; and for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported.

Condition

We noted the following deficiencies:

- We noted that there are no formal written policies and procedures at the Auditor or Treasurer Departments regarding the revenue generation – cash collection processes.
- We noted that Treasurer’s office does not secure cash in secured drawers until it is placed in the locked safe (i.e. during business hours).
- All Treasurer Department employees have access to cash receipts through access to the unsecured cash drawers.
- When the County receives wire transfers, they are verbally communicated by Treasurer to the individual departments, the departments then create deposit permits based on this verbal communication.

Context

Controls relating to the cash collection process should be in place and County staff should be trained on the use of these systems. The County does not have formal written procedures for the cash receipting/collection process.

Effect

The County’s internal controls relating to the cash collection process are weakened.

Cause

The County has not recently reviewed the internal controls relating to the cash collection process.

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Recommendation

The County should improve the internal controls relating to the cash collection process. Written policies should be formalized and employees should be training on the new policies.

Views of Responsible Officials and Planned Corrective Action

The Treasurer’s office is developing a written policy that documents our practice of handling cash receipts. Cash drawer locks will be used and Treasurer and Tax Collector staff will keep keys on their person during working hours to access cash drawers as needed. Currently all three staff members in the Treasurer and Tax Collector’s office need to have access to cash drawers to provide consistent service to the public. We have instituted procedures to ensure that cash is counted and verified by more than one person, and that any deposit permits generated within the department are processed and verified by another member of the staff. At the end of the day the cash drawer is balanced against the deposit permit, and the count is again verified a second time by another staff member.

Treasurer’s office has changed its procedure from verbal communication of wire transfers and/or direct deposits to sending documentation either by fax or by email to the department to notify them of receipt of funds.

Finding 2008-17

INTEREST APPORTIONMENT

Criteria or Specific Requirement

The County’s investment policy states, “Interest earnings shall be allocated quarterly according to each fund’s average daily cash balance as a percentage of the total investment pool.” The County’s Investment Pool manages investments for several governmental agencies within the County.

Condition

We noted that the County has been incorrectly allocating interest earnings from other governmental agencies (school districts and special districts), as well as from County departments (mental health and public health) to the County’s General Fund. Further, there was no formal documentation supporting the rationale for allocating the interest earned from such funds to the General Fund. In addition the County apportions interest on the amount of interest earned by the pool, but the County does not accrue the appropriate interest receivable. This results in the fund being in a deficit position for the amount of the interest receivable.

Context

As stated in the County’s investment policy interest earnings should be allocated to each fund based upon the stated criteria. The County should not divert these interest earnings to support the County’s General Fund.

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Effect

The interest earnings have been understated for the impacted agencies and funds, and have been overstated in the County's General Fund.

Cause

The County's interest allocation forms at some point in the past were formatted to reflect the allocation of interest earnings.

Recommendation

Once this was brought to the attention of County management the County has started the process of communicating with each department to ensure that the interest allocation is appropriate and accurate. The County should continue this process of working with County departments and the other governmental agencies to ensure that the interest allocation is correct.

Views of Responsible Officials and Planned Corrective Action

The County has made the appropriate corrections on the 07/08 and 08/09 financial statements to represent the interest earnings owed by the General Fund to other funds within the Treasury. Once the Financial Statement have been reviewed and finalized, the final amounts owed will be transferred to the respective funds in the current fiscal year. Government code section 53647 states that interest generated by funds deposited by County Officials can be allocated to the General Fund, unless otherwise directed by law, or by direction of the Board of Supervisors. During the fund mapping process, funds were analyzed to determine if the interest earned should or shouldn't be allocated to the General Fund. For example, any funds designated as Investment Trust Funds (funds that the County holds only in a fiduciary capacity, and do not belong to the County) must be allocated the full amount of interest earned according to County policy. Funds that belong to the County, but have specific restrictions as the allocation of interest, such as Public Health and Alcohol and Drug, must also be allocated their portion of the interest (i.e. the interest cannot be redirected to the General Fund).

Agencies and departments with interest to be reallocated will be notified upon completion of the audit, and monies will be transferred back into these accounts as soon as the General Fund cash balance allows for it. To prevent this from happening again, the County is developing procedures for the set-up and designation of new funds. Supporting documentation will be required upon creation of any new fund to substantiate whether or not the interest must remain in the fund, or if it can be allocated to the General Fund. Training, for both County staff and Treasury participants will play an important role in ensuring that County staff set-up and maintain the funds appropriately, and that Treasury participants are able to balance their accounts and monitor activity.

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Finding 2008-18

AUTHORIZED SIGNERS

Criteria or Specific Requirement

The County maintains a listing of authorized signers. The individuals on the listing have been delegated the authority for signing forms and/or performing the job duties as assigned by the department head. The various types of signature authority on the listing include warrants (OTD requests), payroll attendance, payroll check pick up, transfers, work distribution reports, and cash collections and deposits. Each department has an approved listing of authorized signers.

Condition

Based upon the sample of cash disbursements we noted the approved signature listing had not been maintained and was not up to date.

Context

The County's policy requires that only authorized signers can approve certain types of documents.

Effect

The County did not comply with the authorized signer policy, and certain expenditures were processed without the proper authority.

Cause

The County did not verify the authorized signers prior to processing the items noted above before payment.

Recommendation

The County should update the authorized signer listing and provide an updated list to all employees which utilize this list for processing County documents.

Views of Responsible Officials and Planned Corrective Action

The County is developing procedures for maintaining authorized signature lists. The number of authorized signatures is overwhelming, and the new procedures will limit the number of authorized signers per department. Staff has been directed to return unauthorized or unidentifiable signatures to the Department for review and re-submittal, and not rely on verbal authorization or explanation for deficiencies. Signature records will be maintained electronically. Departments will be responsible for updating authorized signature request forms for new staff. Employee exit interviews will include a checklist for removal of exiting staff from the authorized signer list, along with the elimination of IT privileges, emails, pass codes, keys and identification cards.

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Finding 2008-19

RECONCILIATIONS

Criteria or Specific Requirement

The County's financial systems should be reconciled throughout the fiscal year and as part of the comprehensive year-end closing process.

Condition

We noted that the County has not reconciled several aspects of the financial reporting system. The exceptions include the reconciliation of control accounts to the general ledger. Specifically budgetary fund balance, warrants payable and cash had not been reconciled to the general ledger. Some of the differences were material and some immaterial. In addition we noted that there is no formal reconciliation of cash between the balance per the Auditor's general ledger and the Treasurer's cash balance. Several exceptions appear to have been carried forward from the implementation of the new financial/accounting system. It appears that several manual journal entires were posted which have caused unreconciled differences to exist from the implementation of the system.

Context

The County was unaware of the reconciliation issues relating to the implementation of the financial system. In addition the County does not have sufficient policies and procedures covering the reconciliation process.

Effect

The County's general ledger has not been reconciled and the information and/or reports which have been prepared with information from the system may have been materially misstated.

Cause

The County was unaware of the impact of the impact of manual entries that had been posted during the implementation.

Recommendation

The County must develop and implement reconciliation procedures to ensure that the control accounts are balanced to the general ledger.

Views of Responsible Officials and Planned Corrective Action

During the 07/08 and 08/09 audit the un-reconciled accounts were reviewed in detail. Imbalances in the budgetary fund balance control accounts and cash were identified and corrected in the working trial balances. The warrants payable account was reconciled to the Treasurer's outstanding checks. The differences were isolated and corrected. As stated above, numerous differences were directly attributed to manual entries by both County staff and software trainers during the system rollover. County staff did not have the mechanisms in place or the training to recognize the errors, or implement reconciliation procedures.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

The County is currently working on procedures to implement daily and monthly reconciliations. In addition, we are working with the financial software provider to limit accessibility by staff to control accounts so that manual journals cannot be entered purposefully or in error. Most importantly, the County will be focusing on training staff to improve basic accounting skills and knowledge. Controls will be put into place to ensure that reconciliations are completed and that no outstanding imbalances are carried over.

Finding 2008-20

REPORTING OF FEDERAL EXPENDITURES

Criteria or Specific Requirement

OMB Circular A-133 in Subpart C – states that the County shall:

- a. Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- b. Maintain internal control over Federal programs that provides reasonable assurance that the County is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- c. Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- d. Prepare appropriate financial statements, including the schedule of expenditures of Federal awards.

Condition

The County was unaware of the requirements relating to OMB Circular A-133. The County did not have procedures to identify the federal funds received, to capture federal expenditure and to prepare the Schedule of Expenditures of Federal Awards.

Context

The County receives federal funds which are governed by OMB Circular A-133.

Effect

The County has not complied with the guidelines outlined in OMB Circular A-133.

Cause

The County was unaware of the requirements outlined within OMB Circular A-133.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Recommendation

The County has started to work with departments to accumulate the data that is necessary to compile the Schedule of Expenditures of Federal Awards (SEFA). The County must continue to work with departments to obtain the data that is necessary to prepare the SEFA. In addition the County must develop policies and procedures to ensure that the County maintains internal controls over Federal programs to provide reasonable assurance that the County is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Views of Responsible Officials and Planned Corrective Action

Once staff were made aware of the OMB Circular A-133 requirements, information was gathered from departments and compiled by County Auditing staff. The County is currently creating policies and procedures for maintaining and updating the required information. Departmental staff, along with the accounting staff, will be trained to follow the procedures and recognize funding that must be represented on the report.

Finding 2008-21

TAX APPORTIONMENT PROCESS

Criteria or Specific Requirement

The County Auditor has the responsibility as defined by Government Code to perform the tax apportionment process.

Condition

The Auditor’s office is responsible for the tax apportionment process. We noted the following:

- The County is not preparing the tax loss reserve calculation and is not monitoring the tax loss reserve fund; no calculation has been performed in accordance with R&T Code Section 4703. In addition the County is not evaluating the potential amounts that could be transferred to the County’s General Fund.
- Only one person in the Auditor’s office understands how to use the spreadsheets to work through the tax allocation process.
- There is no cross training for the tax apportionment process.
- Since only one person understands how to work through the process there is no opportunity for review.
- The County does not have written policies or procedures covering the tax apportionment process.
- There are no instructions for the spreadsheets that are used for this purpose.
- Certain errors were discovered relating to the amounts input into the spreadsheets.
- The County incorrectly implemented certain provisions of SB 1096.
- The Auditor’s office has not maintained adequate support from taxing districts regarding the special assessments that are included in the tax roll.
- The County has been forwarding teeter tax apportionments in advance of receiving tax allocations.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Context

The tax allocation process is a significant process performed by the Auditor’s Office.

Effect

The County’s controls are weakened as a result of the lack of policies, procedures, and review.

Cause

The County has not documented the policies and procedures used to perform the tax allocation process.

Recommendation

The County must document the policies and procedures used to work through the tax allocation process. In addition the County must cross train personnel and document how the County’s data is used to prepare the worksheets.

Views of Responsible Officials and Planned Corrective Action

- Once made aware, the County Auditor has calculated the maximum allowable amount for the tax loss reserve fund and is monitoring the fund in accordance with R&T Code Section 4703.
- The Auditor began the cross training process for the tax apportionments, along with written procedures in the current fiscal year (09/10).
- The Auditor’s office will continue the process of cross-training and implement a review process that will improve controls, and prevent errors.
- The Auditor is currently in the process of documenting policies and procedures for the tax apportionment process.
- SB 1096 has been corrected for FY 07/08 forward.
- The new policies will include procedures to maximize special district support.

Finding 2008-22

REQUIREMENT FOR SPECIAL DISTRICT AUDITS

Criteria or Specific Requirement

Government code Section (GCS) 26909 states:

26909. (a) (1) The county auditor shall either make or contract with a certified public accountant or public accountant to make an annual audit of the accounts and records of every special district within the county for which an audit by a certified public accountant or public accountant is not otherwise provided. In each case, the minimum requirements of the audit shall be prescribed by the Controller and shall conform to generally accepted auditing standards.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Condition

The Auditor has not complied with Government Code Section 26909 in that several of the special districts within the County have not had annual audits which meet the provisions of the Government Code.

Context

The County Auditor is required to ensure that the County's special districts are audited in accordance with GCS 26909.

Effect

The County has not complied with GCS 26909.

Cause

The County has not complied with GCS 26909.

Recommendation

The County should begin to comply with GCS 26909.

Views of Responsible Officials and Planned Corrective Action

The County did not require audits for the 07/08 year, and although there are possible exemptions for Special District Audits, there is no evidence that the County followed the required steps to qualify for those exemptions. Staff are researching possible Board action that would have allowed (and could continue to allow) Special Districts who operate their funds within the Treasury to forgo the audit and replace the requirement with a financial review by the Auditor.

Finding 2008-23

INFORMATION AND COMMUNICATION

Criteria or Specific Requirement

Information and Communication is a key element of an internal control structure. Both the Board of Supervisors and the County's management team need accurate and timely information regarding the financial position of the County.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Condition

The County does not have a sufficient reporting structure to provide the Board of Supervisors and the management team with accurate and timely information covering the financial condition of the County. It appears that the communication with the Board of Supervisors has been limited. Due to the financial condition of the County it is important to provide accurate and timely information, including but not limited to:

- The financial position of the Investment Pool by external participants and County participants which clearly identifies the negative equity of the County.
- A cash flow analysis for the County.
- A countywide budget to actual comparison; with additional information specific to the General Fund
- For all budget amendments; a clear analysis of the impact on the County, specifically the General Fund.

Context

In order to make timely financial decisions it is necessary to have accurate and timely information for the financial condition of the County.

Effect

The County's information and communication system needs to be improved.

Cause

Reports have not been redesigned as a result of the financial condition of the County.

Recommendation

The County must work towards effective information and communication systems. The County should work with the management team and the Board of Supervisors to develop a plan for accurate and timely communication relating to the financial condition of the County.

Views of Responsible Officials and Planned Corrective Action

Responses to each bulleted item above are as follows, in order:

- The Treasurer disseminates the quarterly Investment report which shows the cash position of the treasury pool. In the current fiscal year, the report has been slightly modified to improve readability and understanding. County staff, from departmental personnel to elected officials will be trained to interpret these reports and understand the County's financial position. The level of understanding has improved greatly over the past year, due to numerous and regular presentations, discussions and workshops.
- A cash flow report has been created in the current fiscal year and is presented monthly, and sometimes more frequently to county staff and the Board of Supervisors. The cash flows are monitored closely to assist the Auditor in managing county funds. The process continues to be refined, and if the County is able to obtain long-term financing, cash flow monitoring will be a part of the bond agreements.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

- The County began monthly budget to actual comparison reporting in the current fiscal year. The report will continue to be refined, and staff and elected officials will be trained to understand the report and identify areas of concern. The County is currently developing a more detailed report to track the General Fund Departments and tie the comparison to the cash flow monitoring.
- Specific County staff have already been identified as responsible for tracking budget modifications. The County Fiscal Officer, a new position in the current fiscal year, will monitor, prepare and present to the Board for approval all budget modifications. The Auditor’s department will enter the modifications in a timely manner, only if sufficient backup is presented and Board authorization is documented and provided with the modification request. Policies and procedures will be developed to maintain strict controls for the process.

Finding 2008-24

CASH FLOW MONITORING

Criteria or Specific Requirement

The County should maintain a cash flow analysis which maps cash inflows and outflows for the County of Modoc funds throughout the fiscal year, specifically the general fund. Many governments track cash inflows and outflows and use this information to support the dry period financing of cash needs through the issuance of short term debt such as Tax Revenue Anticipation Notes (TRANS). Governments also rely upon this information to ensure that they are not using restricted funds to finance ongoing operations.

Condition

The County does not prepare cash flow worksheets detailing the cash inflows and outflows of the County funds throughout the year for the governmental funds, specifically the general fund.

Context

To assist in the tracking of cash needs at the County detailed cash flow worksheets should be prepared to allow the County to forecast cash flow needs well in advance of the actual needs.

Effect

The County has used restricted resources to finance ongoing operations.

Cause

The County has not monitored cash balances for the County’s funds, specifically the general fund.

Recommendation

The County should develop a cash flow analysis for all County governmental funds which tracks actual cash inflows and outflows. This information should be used to forecast cash needs.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Views of Responsible Officials and Planned Corrective Action

The County developed a cash flow monitoring report and mechanism in the current fiscal year. Policies and procedures for this report have been drafted and continue to be refined. A more detailed report specifically for the General Fund will be developed.

Finding 2008-25

CASH AND INVESTMENT REPORTING

Criteria or Specific Requirement

Monthly reporting to the Board of Supervisors should clearly present the cash position of both county participants and external participants of the Treasurer's Investment Pool.

Condition

The reporting to the Board of Supervisors of the Countywide cash position is limited to the monthly Fund Balance and Investment Report. One report provides details of the cash balances in each individual fund on the trial balance and the other report identifies investments managed by the Treasurers office. These reports do not present the pool financial position by external participants and county participants which would clearly identify the negative equity of the County. In addition the County has not prepared special reports for the Board of Supervisors which clearly provide documentation of the negative cash and investment balances.

Context

The investment pool managed by the Treasurer is comprised of both county participants and external participants.

Effect

The information presented to the Board of Supervisors presents the cash in the investment pool, but it does not clearly present the county equity and external participant equity of the pool.

Cause

The County has not presented this type of report to the Board of Supervisors.

Recommendation

The Treasurer's office should develop a report which provides details relating to the General fund cash balance, the cash balance of county participants and also external participants. This high level summary should clearly identify that the county component (specifically the general fund) is in a negative position. Further, greater emphasis should be placed on the review of funds that contain negative cash balances to ensure that formal borrowing arrangements are established or to ensure that action is taken to prevent further degradation of the County's cash position.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

II. FINANCIAL STATEMENT FINDINGS

Views of Responsible Officials and Planned Corrective Action

The County developed a report that graphically shows the status of a series of fund groupings, such as the General Fund, Social Services, Calworks, Hospital, Schools, etc. versus the Treasury balance. This report was originally used to illustrate the County's financial situation and deficit balances to the Board and the public in early 2009. The report continues to be generated by the Treasurer, and disseminated monthly. The report will be refined to represent the funds in terms of reporting units, as represented in the financial statements, and to show deficit balances individually. By presenting the funds as reporting units it will be easy for the Board and the public to identify governmental and proprietary funds versus fiduciary and agency funds.

Finding 2008-26

LONG TERM DEBT

Criteria or Specific Requirement

Generally accepted accounting principles (GAAP) requires the County's financial statements to include all of the County's assets and liabilities.

Condition

We noted that the County does not have internal controls to identify and properly account for long term debt. During our audit, we noted that the County had three long term debt issuances that were not recorded in the County's Accounting System. The Certificate of Participation (COP), was paid off by the end of fiscal year 2007-2008. The COP was for the construction of the County jail and the courthouse annex. In addition, two notes payable for the airport runway upgrades are owed to the California State Department of Transportation.

Context

The liabilities were discovered during the audit fieldwork for fiscal year 2007-2008.

Effect

The County's long term debt has been understated and budgets may not reflect the required annual debt service payments.

Cause

The County has not implemented procedures to ensure that all debts of the County are identified and properly recorded.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

II. FINANCIAL STATEMENT FINDINGS

Recommendation

We suggest that the County work with all departments to identify all long term debt. This information should then be used to ensure that the debt service payments are budgeted, that the debt is properly reflected both on the Statement of Net Assets and within the related footnote disclosures within the County’s financial statements.

In addition, the County should establish procedures to ensure that any debts (i.e. bonds, notes, loans, capital leases) are captured within the financial system.

Views of Responsible Officials and Planned Corrective Action

The County is developing policies and procedures to identify and monitor long-term debt. Documentation for all long-term debt obligations will be maintained in the County Administrator’s Office. No long-term debt will be assumed by the County without prior authorization by the County Administrator (before it is approved by the Board). This will help the County control the obligations outstanding and allow for efficient monitoring. As a secondary control, debt items will be submitted to the Auditor’s Department for their records. Staff is working with the software provider to determine if the financial system has a mechanism to track long-term debt obligations.

Finding 2008-27

TRUST AND AGENCY FUNDS – ACCOUNTS RECEIVABLE/OTHER LIABILITIES

Criteria or Specific Requirement

Trust and agency funds are utilized to identify funds and resources that are held on behalf of others in a fiduciary capacity. These funds and accounts are used to reflect the balances, generally cash and investments, held on behalf of others external to the County.

Condition

The County had several material account receivable and other liability balances which were accrued in the trust and agency funds. Upon further inquiry, we were informed that many of these receivables and liabilities had been carried on the County’s general ledger for years. The County had not reviewed these items as part of the annual year end closing process for several years.

Context

The receivable and other liability balances had been carried as current for several years and had not been reviewed by the County as part of the annual year end closing process.

Effect

Adjustments were required to write-off receivables and other liabilities.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Cause

The County did not review the accounts receivable and other liability balances to ensure that the amounts were properly supported as part of the annual year end closing process.

Recommendation

The County should include the review of the trust fund and agency fund balances as part of the year end closing process.

Views of Responsible Officials and Planned Corrective Action

The year end closing procedures will include a review of Trust and Agency funds. The County’s first step is to open up communication with the Treasury participants, and determine how the County and the agencies can coordinate accounting policies and procedures to protect and manage the funds. Most of the participants keep a separate set of books, and only reconcile cash to the County’s books. This will be rectified through enhanced policies, coordination and communication.

Finding 2008-28

JOURNAL ENTRIES

Criteria or Specific Requirement

The use of journal entries is an important element of the County’s financial processes. Journal entries are used to transfer amounts between funds, post adjustments and perform accruals.

Condition

We noted that the County does not have sufficient internal controls over the use of both recurring and non-recurring types of journal entries. Overall there is a lack of segregation of duties relating to the journal entry process. Many of the journal entries are posted without the appropriate level of review. Some entries are not reviewed by a supervisory level and several do not have supporting documentation.

Context

The Auditor’s office has the responsibility of posting journal entries for all County departments in addition to entries that are required in the Auditor’s office for monthly and year end closing purposes.

Effect

The internal controls of the County are weakened as journal entries are not reviewed and in many cases do not have supporting documentation.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Cause

The County has not established documented policies and procedures for the use of, approval of and for the types of supporting documentation which should accompany each journal entries.

Recommendation

The County must develop standard policies and procedures for the use of journal entries. These should include obtaining and documenting the appropriate level of review, obtaining and maintain supporting documentation and for the sign off and approval within the Auditor's office.

Views of Responsible Officials and Planned Corrective Action

Interim policies have been instituted for the 2010-11 fiscal year that change the process. Currently the Auditor reviews with staff all submitted journals and makes corrections if necessary. Staff enter the journals and run registers for review by the Auditor. The staff do not have access to post the journals, only the Auditor can post after reviewing the entries. A journal entry handbook, standardized forms and staff training are currently being developed.

Finding 2008-29

LEASES

Criteria or Specific Requirement

FASB codification 840-10-25 provides the criteria for determining if a lease is a capital lease. To be classified as a capital lease a lessee and a lessor shall consider whether a lease meets any of the following four criteria as part of classifying the lease as a capital lease at its inception:

- Transfer of ownership. The lease transfers ownership of the property to the lessee by the end of the lease term.
- Bargain purchase option. The lease contains a bargain purchase option.
- Lease term. The lease term is equal to 75 percent or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.
- Minimum lease payments. The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at lease inception over any related investment tax credit retained by the lessor and expected to be realized by the lessor.

Condition

The County does not have policies and procedures to identify and track both operating and capital leases.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

II. FINANCIAL STATEMENT FINDINGS

Context

The County has entered into various leases.

Effect

The County has not tracked for financial reporting purposes the initial recording, lease payments, and financial statement disclosures for the operating and capital leases.

Cause

The County was not aware of the requirements relating to accounting for leases.

Recommendation

The County should develop policies and procedures to identify all operating and capital leases within the County. Training should be provided to all departments relating to the criteria for capital leases.

Views of Responsible Officials and Planned Corrective Action

The County will develop policies and procedures for tracking operating and capital leases. Staff will be trained to follow the procedures.

Finding 2008-30

INVESTMENT POLICY COMPLIANCE

Criteria or Specific Requirement

Government code specifies the types of investments that can be carried in the County's Investment Pool. Governmental agencies can adopt investment policies that meet these requirements or adopt more restrictive investment policies. The County's Investment Policy addresses the government code and makes specific reference to GC Sections 53601 and 53635.

Condition

As of June 30, 2008 the County's investments included an investment of \$1,066,265 in the Highmark Money Market Fund. We noted that the Modoc County Investment Policy which was approved by the Board of Supervisors on January 15, 2008 did not provide for the investment of County funds in money market funds.

Context

The County's investment policy does not allow for the investment of County funds in money market funds.

COUNTY OF MODOC, CALIFORNIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008**

II. FINANCIAL STATEMENT FINDINGS

Effect

The County is not in compliance with the investment policy.

Cause

It appears that this was an oversight of the County.

Recommendation

The County should ensure that all investments comply with the Board approved investment policy.

Views of Responsible Officials and Planned Corrective Action

The County investment policy is being updated to specifically list Money Market Funds as allowable.

There wasn't a recent change in law to allow money market funds, they have been allowable for some time. We didn't specifically list them as allowable because the money market fund isn't used as an investment tool, it is mostly a holding place for interest and funds to be invested or that have recently matured.

Finding 2008-31

DISTRIBUTION OF FUNDS TO OTHER GOVERNMENTAL AGENCIES

Criteria or Specific Requirement

The County collects and distributes taxes, as defined by the California Revenue and Taxation Code, for various governmental agencies within the boundaries of the County. Property taxes are levied on both real and personal property. Secured property taxes are levied July 1 and payable in two equal installments: the first is generally due November 1 and delinquent with penalties after December 10; the second is generally due on February 1 and delinquent with penalties after April 10. Unsecured property taxes become delinquent with penalties after August 31. Secured property taxes become a lien on the property on January 1 or the date on which title to the property transfers or improvements to the property are completed.

In addition the County's Investment Pool acts as the primary investment pool for several governmental agencies within the boundaries of the County. Interest earnings are allocated to the participants within the pool on a periodic basis.

Condition

During the 2007-2008 fiscal year we noted that the County distributed one hundred percent of the secured and unsecured property taxes to the various governmental agencies in the County in November. As noted in the criteria section the taxes are typically collected in two installments in December and April (the last day taxes are due without becoming delinquent). As a result the County is distributing taxes before the taxes are collected.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

We also noted that the County is allocating interest earnings, which were earned in the County's Investment Pool, before the interest is actually received by the County.

Both of these distributions/allocations could cause significant cash flow issues for the County.

Context

The County is distributing funds in advance of the receipt of cash.

Effect

The distribution of these funds in advance of the cash receipt could result in a significant impact to the County's cash flow.

Cause

It appears that the County has historically advanced these funds.

Recommendation

We recommend that the County structure the cash distributions in line with the cash collections.

Views of Responsible Officials and Planned Corrective Action

The County is currently reviewing the advantages and disadvantages of the Teeter Plan. In the current fiscal year the County changed the allocation schedule to accommodate the County's cash flows. New policies and procedure will be developed to decrease the effect of the allocations on the County's cash flow issues. Communication with outside entities receiving allocations will be improved to limit the effect on the agencies' cash flows as well.

Finding 2008-32

FRAUD PREVENTION

Criteria or Specific Requirement

The Association of Certified Fraud Examiners (ACFE) in their publication, ACFE Fraud Prevention Checkup, notes that "Fraud is a common risk that should not be ignored. Fraud is now so common that its occurrence is no longer remarkable, only its scale. Any organization that fails to protect itself appropriately faces increased vulnerability to fraud."

Entities should have a fraud reporting mechanism which is intended for the use of reporting suspected fraud, misuse or abuse of County resources by vendors, contractors, or County employees, and significant violations of County policy. Fraud is an intentional act that results in the misstatement of financial records or theft of the County's assets.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Condition

Based upon our inquiry the County has not considered the risk of fraud as part of the policies and procedures and the internal control structure.

Context

Fraud prevention is an important aspect of an internal control system and should be incorporated into policies and procedures of the County.

Effect

The County's internal controls are weakened as the County does not have a fraud prevention program.

Cause

The County does not have a fraud prevention program.

Recommendation

The County should establish a fraud prevention program. The program should provide for ongoing training for County employees and the establishment of a fraud prevention hotline.

Views of Responsible Officials and Planned Corrective Action

The County will develop a fraud prevention program that will likely utilize the County's web page, and allow for anonymous tips regarding fraud risk.

Finding 2008-33

PENSIONS

Criteria or Specific Requirement

GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* establishes standards for the measurement, recognition, and display of pension expenditures/expense and related liabilities, assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

GASB 27 notes that employers that participate in cost-sharing multiple-employer defined benefit pension plans are required to recognize pension expenditures/expense equal to the employer's contractually required contributions and a liability for unpaid contributions. In addition to the various reporting requirements the statement also requires descriptive information about the plan and its funding policy. The required disclosures also include three years of information about the employer's required contributions and the percentage contributed.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

II. FINANCIAL STATEMENT FINDINGS

Condition

The County of Modoc contributes to the Laborers’ International Union of North America Pension Fund (LIUNA). The plan is managed by LIUNA as a cost-sharing employer plan. LIUNA is a joint labor-management trust maintained in accordance with the Labor Management Relations (“Taft-Harley”) Act and is subject to the provisions of the Internal Revenue Code. LIUNA is administered by a Board of Trustees.

The County was unaware of this pension plan.

Context

The LIUNA pension program was discovered during the audit of personnel expenses/expenditures.

Effect

The County had not previously reported a pension program.

Cause

The County was not aware that the LIUNA benefits met the definition of a pension program.

Recommendation

The County should maintain documentation and track each of the County’s pension programs.

Views of Responsible Officials and Planned Corrective Action:

The county is currently working to document the plan and develop personnel and accounting policies to manage it.

Finding 2008-34

COMPENSATED ABSENCES

Criteria or Specific Requirement

GASB Statement No. 16 *Accounting for Compensated Absences* notes that a liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer and employee should be accounted for in the period those services are rendered or those events take place.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Condition

County policy allows employees to accrue compensated absences. Several deficiencies were noted relating to the compensated absences liability.

- It appears that the County had not consistently tracked the accrued time by County employee.
- It appears that several grandfathering resolutions have been adopted by the Board of Supervisors which have allowed certain compensated leave balances to be in excess of the balances as permitted by County policy. This has caused several large compensated absence liabilities.
- The County did not have a summary of prior Board actions which agreed to the various County employees with balances in excess of County policy.
- The compensated absences listed is not monitored to ensure that maximum balances are not exceeded.
- There is a lack of segregation of duties relating to the controls for the compensated absences. The County does not have policies and procedures which provide for approval of changes and tracking balances.
- Comp time was not tracked and monitored.
- Details for the compensated absences activity could only be provided for a portion of the fiscal year.

Context

The County allows employees to accrue vacation time.

Effect

The County had not calculated and/or tracked the actual liability for accrued compensated absences.

Cause

The County did not maintain a summary of the accrued compensated absences.

Recommendation

The County should continue to update the compensated absence worksheet and to maintain all Board action items which impact policy and individual balances. The compensated absence liability should be calculated on at least an annual basis as part of the year end closing process.

Views of Responsible Officials and Planned Corrective Action

The Human Resources Department (CAO's Office) has taken the responsibility for tracking and documenting compensated absences. Year end calculations and reconciliations will be included in the year end closing procedures currently being developed.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

II. FINANCIAL STATEMENT FINDINGS

Finding 2008-35

GENERAL LEDGER – SYSTEM IMPLEMENTATION JOURNAL ENTRIES

Criteria or Specific Requirement

The County is responsible for a system of internal controls which should be designed to provide for the protection of the County’s financial health, funds, assets, and financial reporting systems.

Condition

Several years ago the County upgraded and implemented a new accounting system. During the system implementation the system trainer posted numerous material journal entries to the live production environment. These journal entries had not been discovered by the County and have remained in the system until they were discovered during the audit process for fiscal year 2007-2008. The County’s financial data has been materially misstated as a result of these journal entries. These entries were discovered in the payroll clearing fund.

Context

When the County implemented the new accounting system the trainer assigned to assist with the system implementation posted several journal entries in the live production environment rather than in the training environment.

Effect

The funds which were affected by these entries have been materially misstated until they were discovered and corrected as part of the fiscal year 2007-2008 closing process.

Cause

The County was unaware of the journal entries which were posted by the system trainer during the system implementation process.

Recommendation

The County must reconcile all funds and accounts as part of the year end closing process.

Views of Responsible Officials and Planned Corrective Action

As stated previously, year-end closing procedures are being developed, which will include annual reconciliation of all funds. Payroll staff are currently being trained to reconcile all payroll funds on a monthly basis.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Finding 2008-36

TRUST FUNDS

Criteria or Specific Requirement

The County is responsible for a system of internal controls which should be designed to provide for the protection of the County's financial health, funds, assets, and financial reporting systems.

Condition

The County had not reconciled several of the trust and agency funds as part of the year end closing process. The tax resources trust account had approximately \$1.4 million of taxes receivable that had been carried for several years and was determined to be uncollectible. In addition the payroll clearing fund was out of balance in excess of \$1 million.

Context

The County had not reconciled several of the trust accounts with material balances.

Effect

The County's trust and agency account balances were materially misstated.

Cause

The County has been carrying balances in the trust and agency accounts which were either stale dated and/or had not been reconciled for numerous years.

Recommendation

The County must reconcile all funds and accounts as part of the year end closing process.

Views of Responsible Officials and Planned Corrective Action

The yearend closing procedures being developed will include procedures for the annual reconciliation of all funds by the Auditor. In addition, trust and agency funds will ALL be assigned to specific departments to ensure monthly monitoring and reconciliation. In addition, the posting of tax receivables and collections is being revised and will be completed in accordance with GAAP, GASB and the SCO's Accounting Manual for Counties.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Finding 2008-37

INTERFUND TRANSACTIONS

Criteria or Specific Requirement

Revenues and Expenditures/Expenses should be properly classified in governmental financial statements. The transfer of resources between funds is different in substance than revenues and expenditures/expenses, and should be reported as Other Financing Sources/Uses.

Condition

The County has been recording revenue and the corresponding expenditure/expense in funds to post transactions which should have been accounted for as interfund transfers.

Context

The accounting treatment for interfund transactions used by the County has been to post revenue and expenditures/expenses for these transactions.

Effect

The effect of posting interfund transfers as revenues and expenditures/expenses in the related funds results in the overstatement of both revenues and expenditures/expenses.

Cause

The County did not follow Generally Accepted Accounting Principles (GAAP) when posting these types of transactions between funds.

Recommendation

To properly present revenues, expenditures/expenses in the County's financial statements the interfund transactions must be posted as interfund activity in the Other Sources/Uses section of the statements. This will ensure that revenues and expenditures/expenses are not overstated.

View of Responsible Officials and Planned Corrective Action

For 07/08 County staff manually reclassified these transfers to appropriately reflect the interfund transfers and eliminate overstatement of revenues and expenditures. In 10/11, the County has implemented the used of specific interfund transfer accounts that will eliminate the need for manual reclassification.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Finding 2008-38

FINANCIAL CONDITION OF THE MODOC MEDICAL CENTER (MMC) – GOING CONCERN

Criteria or Specific Requirement

The Medical Center is responsible for the development; implementation and monitoring of the budget and internal control systems to protect the ongoing financial health of its operations.

Condition

Material Weakness - The Medical Center is currently in a severe financial crisis. As indicated in the accompanying financial statements, the Medical Center incurred a decrease in net assets of \$2,172,604 during the year ended June 30, 2008. As of that date, the Medical Center's current liabilities exceeded its current assets by \$8,898,166 and its total liabilities exceeded its total assets by \$7,170,063. As of June 30, 2008, the Medical Center has a cash overdraft of \$11,112,408 due to the County. Those factors, as well as the uncertain conditions that the Medical Center faces regarding its cash deficit position (as discussed in Note 10), create an uncertainty about the Medical Center's ability to continue as a going concern. Management of the Medical Center is developing a plan to reduce its liabilities through the increase of patient services, improved billing and collection efforts, and short period financing. A local citizen group is also campaigning for the creation of a healthcare district. See Subsequent Event footnote in the basic financial statements. The ability of the Medical Center to continue as a going concern is dependent on acceptance of a plan by the County of Modoc Board of Supervisors, and the plan's success. The financial statements do not include any adjustments that might be necessary if the Medical Center is unable to continue as a going concern.

Context

The County does not have adequate resources to repay the funds which have been taken from the Investment Pool.

Effect

The financial condition of the County has been severely impacted.

Cause

The County has funded several years of deficit spending with resources that were taken from the Investment Pool. These resources were used to fund the continued operations of the County, primarily the Modoc Medical Center.

Recommendation

The County must continue to develop and implement a recovery plan.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Views of Responsible Officials and Planned Corrective Action

The hospital has taken several steps in efforts to reduce the burden to the County. The hospital was successful in attaining critical access status effective October 9, 2008. Doing so, changes the reimbursement structure from Medicare to be cost based, and therefore, more advantageous to financial operations. Also, in January 2009, the rate structure charged for services was reviewed and significantly raised to be more equitable with industry standards. While this action is not a dollar for dollar return, it does result in a more positive cash flow in terms of net revenue. Additionally, with the help of the Milano Foundation, diagnostic services have been expanded by acquiring a CT scanner in May 2008 and a digital ultra sound in April 2009. Outpatient surgeries started in August 2009, and respiratory therapy and wound care are now underway.

To reduce expenses, the hospital has changed its Group Purchasing Organization (GPO) to one that is more beneficial to our supply costs in November 2009. Furthermore, there have been great strides taken in reducing the amount of registry nurses and filling those positions with hired staff. Typically, registry rates are more costly than staff rates, plus the expense of housing registry is greatly diminished. Additionally, flex staffing has been implemented in certain areas, so staffing levels are correlated to current census of patients needing care. Also, Portions of the Patient Financial Services department have been outsourced in October 2009. Since then, collections have been improving evidenced by increased cash flow and reductions in the Days in Accounts Receivable.

In regards to cash flow, hospital management has been operating its funds in a cash positive manner for approximately the past twenty months. The balance of cash is monitored daily, and tracking of available funds begins over at the beginning of each month. Only if the cash account reflects a positive balance are warrants submitted to the County for payment. What's more, the hospital has been able to reimburse some of its past borrowings from the County that was used to maintain its operations prior to these changes.

A successful ballot measure on August 31, 2010 established a funded hospital district that anticipates sufficient tax revenue to sustain positive cash flows beginning in fiscal year ended June 30, 2011. Management considers separation from the County a positive alternative because funds are deposited into the Treasury, but may not be spent on hospital activity. See Subsequent Event footnote in the basic financial statements.

Finding 2008-39

MMC: MONTHLY CASH RECONCILIATIONS

Criteria or Specific Requirement

A fundamental element of an effective system of internal controls is the proper segregation of duties.

Proper segregation of duties may provide a stronger system of internal control whereby the functions of each employee are subject to the review of by management.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

II. FINANCIAL STATEMENT FINDINGS

Condition

Material Weakness - As a result of our audit, we noted the Chief Financial Officer prepared the monthly cash reconciliation. However, we noted the Medical Center did not have a procedure in place to review the cash reconciliations prepared by the CFO.

Context

The Hospital's daily cash collections are recorded in both the County's general ledger system and the Medical Center's separate general ledger. Monthly reconciliation is required to ensure both ledgers are in agreement.

Effect

The Medical Center's internal control systems are weakened and proper safeguards are not in place to protect the assets of the Medical Center.

Cause

The Medical Center experienced turnover during FY 2008 resulting in a lack of accounting staff.

Recommendation

To strengthen control in this area, the Medical Center should implement procedures to ensure separate individuals have responsibility over preparing and reviewing the monthly cash reconciliation. This proper segregation of duties may provide a stronger system of internal control whereby the functions of each employee are subject to the review by other employees or management.

Views of Responsible Officials and Planned Corrective Action

Not until recently has there been adequate staffing to implement satisfactory segregation of duties. In the interim, Management felt the CFO would be the likely person to perform the bank reconciliation as the remaining accounting staff's functions directly recorded daily activities into the general ledger system.

Currently, there is a sufficient structure in place for the CFO to monitor those activities rather than perform them. Accordingly, procedures have been implemented to segregate the preparation and review of activity, thereby strengthening internal controls. Accounting activities will be overseen by the Controller and monitored and reviewed by the CFO.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Finding 2008-40

MMC: APPROVAL OF JOURNAL ENTRIES

Criteria or Specific Requirement

An element of effective internal controls is the proper segregation of duties. The basic premise of segregating duties is to prevent situations where an employee has the ability to perpetrate an error or irregularity and to conceal it as well. Proper segregation of duties provides for a system of checks and balances such that the functions by one employee are subject to review through the performance of the interrelated functions of another employee.

Condition

Material Weakness - We noted a lack of segregation of duties in the preparation of journal entries (JE), whereby the same staff prepare, enter, and post journal entries to the general ledger. It is the Medical Center's policy to have staff entering the journal entries have a supervisor/manager or other authorized personnel independent of the preparation function review and approve the journal entry prior to posting to the general ledger.

Context

Internal controls are designed to safeguard assets and assist in the prevention and/or detection of misstatements of the County's financial statements. A fundamental concept in the design of an effective system of internal control is the segregation of duties.

Effect

The basic premise is that no one employee should have access to all phases of an accounting transaction.

Cause

The Medical Center's financial accounting system is currently not designed to prevent authorized staff from preparing, entering, and posting a JE to the general ledger.

Recommendation

To strengthen control in this area, the Medical Center should implement procedures to ensure separate individuals have responsibility over preparing and reviewing journal entries. This proper segregation of duties may provide a stronger system of internal control whereby the functions of each employee are subject to the review by other employees or management.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Views of Responsible Officials and Planned Corrective Action

Not until recently has there been adequate staffing to implement satisfactory segregation of duties. In the interim, Management felt the CFO would be the likely person to perform the journal entries as the remaining accounting staff's functions directly recorded daily activities into the general ledger system. The CFO and CEO would discuss financial reports prior to Finance Committee meetings.

Currently, there is a sufficient structure in place for the CFO to monitor those activities rather than perform them. Accordingly, procedures have been implemented to segregate the preparation and review of activity, thereby strengthening internal controls. Accounting activities will be overseen by the Controller and monitored and reviewed by the CFO.

Finding 2008-41

MMC: THIRD PARTY SETTLEMENTS

Criteria or Specific Requirement

Health care entities need to estimate third party revenue and related receivable amounts that ultimately will be realizable in order for revenues to be fairly stated in accordance with generally accepted accounting principles. In addition, preparation of third-party cost reports should be reviewed for accuracy and completeness prior to filing to intermediary agencies.

Condition

Material Weakness - As a result of our audit, we noted the Medical Center does not have policies or procedures in place to evaluate the completeness of its third party settlements. In FY 2008, we noted the Hospital filed an Assembly Bill (AB) 915 cost report to the State of California for supplemental MediCal outpatient services. The cost report for FY 2007 was not filed until March 2008. However, the Medical Center did not record the estimated net settlement in its June 30, 2007 financial statements. The net settlement for FY 2007 was recorded in FY 2008 when the reimbursement was received. We also noted the Medical Center did not record as of June 30, 2008 the estimated net settlement for its AB 915 cost report for FY 2008. As a result, beginning net assets were restated to reflect the FY 2007 AB cost report settlement revenue. Additionally, an adjustment was proposed to record the estimated net settlement for FY 2008.

We also noted that Medical Center has received settlement letters for its FY 2009 and FY 2010 Medicare reimbursements indicating the Medical Center was overpaid during these periods.

Context

The Medical Center received \$287,529 and \$226,895 in AB 915 revenues for fiscal years ending June 30, 2008 and 2007, respectively. These amounts were not accrued in the proper accounting period.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Effect

Beginning net assets were restated to reflect the FY 2007 AB cost report settlement revenue. Additionally, an adjustment was proposed to record the estimated net settlement for FY 2008. Subsequent event disclosures were also required to communicate the affect of the FY 2009 and FY 2009 cost report settlements.

Cause

The Medical Center did not have a policy in place to estimate and record the AB 915 cost report settlement amounts and make the required disclosures in accordance with GAAP.

Recommendation

We understand the Medical Center prepares the AB 915 cost report subsequent to each fiscal year. However, we recommend that the Medical Center establish and maintain internal controls that will enable management to estimate and record all third party settlements based on their estimated realizable amounts, in the proper period, in accordance with GAAP. We also recommend that the Medical Center implement policies and procedures to ensure amounts billed to Medicare are at the appropriate rate.

Views of Responsible Officials and Planned Corrective Action

It is Management's view that AB 915 and cost reporting activity should be accrued to be in accordance with GAAP, and therefore concur with the auditor finding. Items subsequent to fiscal year ended June 30, 2008 have been accrued and intend for these items to be accrued in future years as well. It is hospital policy to record general ledger transactions as activity is incurred in accordance with GAAP practices.

Finding 2008-42

MMC: CAPITAL ASSET MANAGEMENT

Criteria or Specific Requirement

A fundamental element of an effective system of internal controls is proper controls over capital assets. Per the Medical Center's policy, every purchase of construction or major capital asset that have costs in excess of \$5,000 required at least three bids.

Condition

Material Weakness - As a result of our testwork, we noted that the Medical Center has an asset tagging system in place, but it is not properly implemented. Therefore it cannot be relied on. We also noted that the Medical Center does not perform any type of physical inventory count to ensure all Medical Center's capital assets are safeguarded. In addition, VTD noted that no process is in place for the detection of fixed assets impairment. It was noted that department managers are responsible for notifying the Chief Financial Officer whenever fixed assets are acquired lost, destroyed, stolen or disposed of. However, we noted procedures are not performed to communicate the disposition of capital assets to the department of finance.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Per inquiry, we noted the County's policy requires every purchase of capital assets that have costs in excess of \$5,000 to solicit at least three bids. Based on the testwork over the bid procedures, we noted, only one proposal was obtained for the acquisition of a Chemical Analyzer in the amount of \$85,800 from Fisher Healthcare.

We also noted the Medical Center did not seek three competitive bids for the purchase of a Chemical Analyzer.

Context

The condition noted above was identified during our testwork over capital assets.

Effect

Without a properly implemented asset tagging system in place and performing periodic physical inventory counts, capital assets will not be fully safeguarded. An asset tagging system along with performing a physical inventory of fixed assets on an annual basis can assist in tracking all of the Medical Center's capital assets. Impaired fixed assets will not be detected without a proper process for detection of fixed assets impairment.

Cause

The Medical Center's policies over capital assets were not properly designed and implemented during the fiscal year.

Recommendation

We recommend that the Medical Center develop internal procedures to adequately track the additions and deletions of capital assets. These procedures should include reconciling the Medical Center's general ledger or subsidiary ledgers to physical capital asset records. We also recommend that the Medical Center initiate the process to perform periodic inventories of its capital assets. We also recommend that the Medical Center implement procedures to ensure capital asset procured are purchased through a competitive bidding process. In addition, procedures should be implemented for the detection of fixed asset impairment to improve the effectiveness and efficiency of detecting impaired assets.

Views of Responsible Officials and Planned Corrective Action

Management is in the process of developing a tagging system between Accounting, Purchasing, and Maintenance to ensure tags are placed on equipment prior to being distributed from purchasing. The tag numbers will then be traceable to the general ledger system where reports can be generated by department, so physical inspection can occur on a periodic basis to evaluate the existence and valuation of the assets.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

II. FINANCIAL STATEMENT FINDINGS

Finding 2008-43

MMC: YEAR-END CUTOFF PROPOSED ADJUSTING JOURNAL ENTRIES

Criteria or Specific Requirement

The Medical Center should maintain procedures to ensure that year end closing procedures address all accounts.

Condition

Material weakness - During our testing of year-end cutoff procedures, we proposed audit adjustments to properly state the year-end account balances of certain accounts in order to properly present the statements of net assets and the statements of revenue, expenses, and changes in net assets of the Medical Center. All adjustments that were proposed during the current year audit were presented to management and subsequently posted to the general ledger. The adjustment proposed this current fiscal year related to accounts payable, prepaid expenses, third-party settlements, capital assets, capital and non-capital contributions, accrued pension expense, and donated capital equipment.

Context

The above condition was identified during our audit procedures over the Medical Center's year end account balances and cut-off procedures.

Effect

Adjustments were proposed and posted to the Medical Center's general ledger for the year ended June 30, 2008.

Cause

The Medical Center did not consistently apply its year-end closing procedures for cut-off.

Recommendation

We recommend that the Medical Center strengthen its year-end closing procedures to ensure that all transactions related to fiscal year are properly captured and recorded in the general ledger to ensure the accuracy and complete of the financial statements.

Views of Responsible Officials and Planned Corrective Action

In the past, there was not a clear understanding of accrual basis accounting, nor the affects of what other modules do when posted to the general ledger module. As a result, management has tried to align staff in "best fit" positions and continue to train those that work in the financial software package.

Management is in the process of strengthening year end closing procedures to include a checklist of activity that will capture related activity to specific periods.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Finding 2008-44

MMC: SEGREGATION OF DUTIES - PAYROLL

Criteria or Specific Requirement

An element of effective internal controls is the proper segregation of duties. The basic premise of segregating duties is to prevent situations where an employee has the ability to perpetrate an error or irregularity and to conceal it as well. Proper segregation of duties provides for a system of checks and balances such that the functions by one employee are subject to review through the performance of the interrelated functions of another employee.

Condition

Material Weakness - We noted the following control deficiencies as a result of our audit procedures over the payroll and human resource process:

- We noted there is currently not a monitoring procedure in place designed to ensure pay rates changed within the payroll system are reviewed.
- We noted all Accounting Department employees have access capability in the system to change pay rates in the system. We also noted a former department employee maintains access to the system. We also noted the Accounting Department employees have the ability to edit the employee master file.
- We noted the payroll clerk will enter hours into the payroll system for those employees that do not prepare a time sheet. This procedure is not subject to management review.
- We noted, per inquiry and inspection, employees do not always sign their time card. In such cases, the Medical Center is not requesting the employee to sign the time card prior to processing the payroll.
- There is no review or approval of the balances entered into the direct deposit bank account, aside from the reconciliation of reports run by the payroll clerk.

Context

The above condition was identified during our audit procedures over the Medical Center's payroll process.

Effect

These same individuals also have the ability to change payroll data, such as pay rates, as well as enter time into the payroll system.

Cause

We note that the Medical Center currently does not generate and review a report on a periodic basis to detect any changes to the payroll system.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

Recommendation

To strengthen control in this area, the Medical Center should implement/improve controls by restricting the responsibility of adding new employees and updating pay rates to the Medical Center’s personnel department. Also, upper management should periodically review changes to the payroll data and the employee master file. Lastly, the Medical Center should implement improved securities within its payroll system to ensure employees do not have access and ability to change or manipulate employee data, including pay rates. This proper segregation of duties may provide a stronger system of internal control whereby the functions of each employee are subject to the review of by management.

Views of Responsible Officials and Planned Corrective Action

Management will implement policies to strengthen controls by limiting employee setup accessibility to certain Accounting personnel, IT, and technical support. Management will print a pay rate report and periodically compare to the employee master file. For current processing, pay rates will be reflected on input reports for supervisor approval prior to processing. That report can be compared to final reports for consistency in gross pay amounts.

Finding 2008-45

SEGREGATION OF DUTIES – CHARGEMASTER

Criteria or Specific Requirement

An element of effective internal controls is the proper segregation of duties. The basic premise of segregating duties is to prevent situations where an employee has the ability to perpetrate an error or irregularity and to conceal it as well. Proper segregation of duties provides for a system of checks and balances such that the functions by one employee are subject to review through the performance of the interrelated functions of another employee.

Changes to the Chargemaster must be authorized. Procedures should be established to control changes and updates to information included on the rate master file or listing of approved rates. Additionally, system configuration related to the Chargemaster should be properly designed, implemented, functioning, maintained and subject to appropriate change control procedures.

Condition

Significant Deficiency - As a result of our audit procedures over the Medical Center’s patient accounting, we noted that the individual responsible for entering charges from charge sheets in the patient management system is also responsible for updating the Chargemaster. In addition, we tested access to the Chargemaster noting access does not appear to be properly controlled or limited. However, we noted the Medical Center does have an approval process for changing rates in the Chargemaster.

Context

The condition noted above was identified during our testwork over patient revenue system.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

II. FINANCIAL STATEMENT FINDINGS

Effect

Having segregation of duties between individuals responsible for coding charges to patient accounts and updating the Chargemaster will minimize unauthorized changes to Chargemaster for specific patients.

Cause

The Medical Center does not have effective controls in place to segregate access and changes to the Chargemaster.

Recommendation

We recommend that an individual separate from the charge sheet processing have the responsibility of updating the Chargemaster. Additionally, any changes to the Chargemaster should be logged or reviewed on a monthly basis by management. A log will strengthen the control over identifying any unauthorized changes to the Chargemaster.

Views of Responsible Officials and Planned Corrective Action

The controls for access to the Chargemaster have been inconsistent over the past years due to changes in staff positions or re-alignment of duties. Management agrees that controls over the Chargemaster need to be strengthened.

To do so, all access to change the Chargemaster will be eliminated except for the CFO, Controller, and the contracted Patient Financial Services Director. A change request form will be used to initiate any updates. Requested changes will occur only after authorization has been indicated on the form by the Health Information Manager, CFO or Controller.

In addition, a log to identify access will be generated on a monthly basis from the financial software and another ongoing log will identify changes made by date.

Finding 2008-46

MMC: SUPERVISORY APPROVAL OF EMPLOYEE LABOR HOURS

Criteria or Specific Requirement

Employee hours processed through the payroll system should be approved by an employee's supervisor. Evidence of the employee's preparation of the timesheet and approval from the employee's supervisor should be maintained.

Condition

Significant Deficiency - Based on the testing over the Payroll process internal controls, we noted the following exceptions.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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II. FINANCIAL STATEMENT FINDINGS

- It was noted that 4 out of 40 employee time cards tested were missing a supervisor's approval on manual timecards.
- We were unable recalculate the gross pay on a test basis to the gross pay per the payroll register for 2 of the employees selected.
- We noted per review of 40 personnel files, 25 were missing a signed I-9 form, one was a missing W-4 and one was missing a signed application.

Context

The condition noted above was identified during our testing over the approval of payroll time processed and calculation of payroll expense.

Effect

The Medical Center was not able to provide evidence of supervisor certification of employee's payroll time processed through the payroll system. In addition, the Medical Center could not reconcile the gross pay per the payroll register to supporting documentation. As such, the control environment is weakened.

Cause

The Medical Center is not following its established policies and procedures to ensure that timesheets are prepared by the employee and approved by the employee's supervisor.

Recommendation

We recommend that the Medical Center formalize policies and procedures to ensure that employee and supervisor certification of payroll time are maintained. In addition, the Medical Center should implement procedures to ensure employee personnel files are complete.

Views of Responsible Officials and Planned Corrective Action

Personnel files now have a checklist in place that help ensure completeness of required documentation. Also, all files were checked for current employees to make sure that I-9 forms were completed and available. In the past, certain forms were kept in a separate location and became inaccessible.

For payroll processing, additional training and oversight has been provided to payroll staff. Also, management will include in its policies to have department supervisors approve an input report prior to payroll processing.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

The following findings represent significant deficiencies, material weaknesses, and/or instances of non-compliance including questioned costs that are required to be reported by *OMB Circular A-133, Section .510(a)*.

Finding 2008-47

Program: Food Stamps Cluster
CFDA No.: 10.551, 10.561
Federal Grantor: U.S. Department of Agriculture
Passed-through: State of California
Award No.: Various
Award Year: FY 2007-2008
Compliance Requirement: Reporting

Criteria or Specific Requirement

OMB Circular A-133, Sub-part C, Section 300, Part b, states that the auditee is responsible for “maintaining internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

The County is required to submit several reports to the State including, but not limited to:

- FNS-46 – *Food Stamp Program Issuance Reconciliation Report*. This monthly report is used to account for benefits issued and returned and over-issuance liabilities during a report month. It must be submitted within 30 days after the end of the report month.
- DFA-256 – *Food Stamp Program Participation and Benefit Issuance Report*. This monthly report is used to account for participation in the program and value of benefits issued during a report month. It must be submitted within 20 days after the end of the report month.

Condition

Of the 24 monthly reports selected for testwork, we noted the following:

- 1) 12 of the 12 FNS-46 reports did not document evidence of review prior to submission.
- 2) 12 of the 12 DFA-256 reports did not document evidence of review prior to submission.

Questioned Costs

None

Context

The condition noted above was identified during our examination of the County’s reports of the Food Stamp program.

Effect

The County increases its risk of non-compliance with reporting requirements set forth in *OMB A-133 Compliance Supplement*.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Cause

The County's procedures did not ensure that the reports submitted to the State document evidence of review prior to submission.

Recommendation

We recommend that the County implement procedures to ensure that the reports are supported by a documented review prior to submission.

Views of Responsible Officials and Planned Corrective Action

The County has since implemented a "sign-off" procedure, which requires these reports to be reviewed and "signed-off" on by fiscal staff prior to submittal. Currently the fiscal department is understaffed, and the Director of the Department is conducting the reviews. Once the fiscal department is fully staffed and trained, the Department Fiscal Officer will resume responsibility for reviewing and signing off on the reports prior to submittal.

Finding 2008-48

Program: Food Stamps Cluster

CFDA No.: 10.551, 10.561

Federal Grantor: U.S. Department of Agriculture

Passed-through: State of California

Award No.: Various

Award Year: FY 2007-2008

Compliance Requirement: Special Tests and Provisions

Criteria or Specific Requirement

The *March 2008 Office of Budget and Management (OMB) Circular A-133 Compliance Supplement* requires that to be eligible for assistance the County must determine the eligibility of program participants. To facilitate the eligibility determination the County utilizes the following:

- 1) A program application, referred to as a SAWS1, which must be signed by the applicant and retained in the participant's file.
- 2) A statement of facts, referred to as a SAWS2, which must be signed by the applicant and retained in the participant's file. This is obtained both at initial application and during annual re-determination.
- 3) An acknowledgment of the participant's rights and responsibilities, referred to as a SAWS2A, which must be signed by both the applicant and the caseworker and retained in the participant's file. This is obtained both at initial application and during annual re-determination.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

- 4) Income and Eligibility Verification System (IEVS) to verify eligibility using wage information available from agencies such as the agencies administering State unemployment compensation laws, Social Security Administration, and the Internal Revenue Service to verify income eligibility and the amount of eligible benefits. The State of California has used IEVS since 1987 to verify income information received from applicants and recipients. This is obtained both at initial application and during annual re-determination and must be signed by the caseworker.
- 5) QR-7 reports are submitted by the participant's on a quarterly basis to report any changes in income, housing, or status which may affect eligibility. These reports are required to be signed by both the participant and the caseworker, and retained in the participant's file.

Condition

Of the 40 case files selected for testwork, we noted the following:

In order to determine initial and on-going eligibility of applicants, caseworkers utilize several tools, including applications, a statement of facts, a statement of rights and responsibilities, IEVS reports and quarterly reports (QR-7):

- a. We noted 3 files did not contain the SAWS1 application.
- b. We noted 2 files did not contain the SAWS2 statement of facts.
- c. We noted 2 files did not contain the SAWS2A form.
- d. We noted 12 files did not contain the IEVS reports.
- e. We noted 8 files contained the IEVS reports but they were not signed by the caseworkers.
- f. We noted 4 files did not contain all QR-7 reports.

Questioned Costs

Questioned costs of \$3,470, based on the exceptions related to SAWS1 and IEVS noted above, represent the benefit payments for the individual transactions.

Context

The condition noted above was identified during our examination of the County's participant case files of the Food Stamp program.

Effect

The County is not in compliance with special test and provisions requirements set forth in *OMB A-133 Compliance Supplement*.

Cause

The County's procedures did not ensure that SAWS1 applications, SAWS2 statement of facts, SAWS2A forms, QR-7 reports and IEVS reports were consistently present in the case files.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Recommendation

We recommend that the County implement procedures to ensure that the SAWS1 applications, SAWS2 statement of facts, SAWS2A forms, QR-7 reports and IEVS reports and other items used for eligibility determination are consistently obtained and documented in participant case files.

Views of Responsible Officials and Planned Corrective Action

The above recommendations have been implemented by the conversion to the automated C-IV system. All documents are scanned, and forms are automatically generated thus ensuring a more complete case file. IEVS reports are used to verify eligibility using wage information from State unemployment, Social Security and IRS, if any of the three entities do not send their information into the State, then the reports come sporadically, and the County has no control over this issue. Complaints have been sent to the state regarding this issue. The County has no control of when or if an IEVS report will be sent and should not be penalized. Verbal and written procedures are being put into place for the workers to adhere to the guidelines.

Finding 2008-49

Program: Food Stamps Cluster
CFDA No.: 10.551, 10.561
Federal Grantor: U.S. Department of Agriculture
Passed-through: State of California
Award No.: Various
Award Year: FY 2007-2008
Compliance Requirement: Special Tests and Provisions

Criteria or Specific Requirement

The *March 2008 Office of Budget and Management (OMB) Circular A-133 Compliance Supplement* requires that the County must establish a quality control unit that is independent of program operations.

Condition

The County has not established a quality control unit.

Questioned Costs

None

Context

The condition noted above was identified during our examination of the County's Food Stamp program.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Effect

The County is not in compliance with special test and provisions requirements set forth in *OMB A-133 Compliance Supplement*.

Cause

The County's procedures did not ensure that a quality control unit organizationally independent of program operations was established.

Recommendation:

We recommend that the County establish a quality control unit that is organizationally independent of program operations.

Views of Responsible Officials and Planned Corrective Action

The department is in the process of establishing a quality control unit that is independent of program operations.

Finding 2008-50

Program: Secure Rural Schools and Counties

CFDA No.: 10.665

Federal Grantor: U.S. Department of Agriculture

Passed-through: State of California

Award No.: Various

Award Year: 2007-2008

Compliance Requirement: Activities Allowed or Unallowed/Allowable Costs

Criteria or Specific Requirement

The *March 2008 Office of Budget and Management (OMB) Circular A-133 Compliance Supplement* states that Federal awards must be expended only for allowable activities.

Condition

Of the seven Title III projects tested, we noted that two projects did not have support for expenditures. It was further noted that Title I and III funds expended are not tracked to specific expenditures.

Questioned Costs

\$141,000

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Context

The condition noted above was identified during our examination of the Program’s allowable activities.

Effect

The County is not in compliance with allowable costs compliance requirements.

Cause

The County’s procedures did not ensure that program expenditures are consistently supported and tracked.

Recommendation

We recommend that the County strengthen its procedures to ensure that costs incurred are properly supported and tracked.

Views of Responsible Officials and Planned Corrective Action

While the County had procedures in place to review and monitor subrecipient projects for compliance, the “County” projects were not reviewed and monitored in detail. The County has now included the “County” projects in the same review process, and is requiring that documentation showing compliance be submitted prior to the funds being transferred from the Forest Reserve Fund to their department.

Finding 2008-51

Program: Secure Rural Schools and Counties

CFDA No.: 10.665

Federal Grantor: U.S. Department of Agriculture

Passed-through: State of California

Award No.: Various

Award Year: 2007-2008

Compliance Requirement: Procurement and Suspension and Debarment

Criteria or Specific Requirement

The *March 2008 Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* states that:

- 1) If an entity has a policy to use statutorily or administratively imposed in-State or local geographic preferences in the evaluation of bids and proposals these limitations must not be applied to federally funded procurements except where applicable Federal statutes expressly mandate or encourage geographic preference.
- 2) When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties list System (EPLS)*, collecting a certification from the entity or adding a clause or condition to the covered transaction with that entity.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

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Condition

Of the four vendors selected for testing, we noted the following:

- 1) The County's procurement policy contains a local bidder preference where it was not expressly mandated or encouraged by Federal statutes.
- 2) No verification was performed and no certification from the vendors was collected to ensure the vendors were not suspended and debarred or otherwise excluded.

Questioned Costs

None

Context

The condition noted above was identified during testing of the procurement and suspension and debarment requirements of the program.

Effect

The County increases its risk of non-compliance with procurement, suspension and debarment requirements set forth in *OMB A-133 Compliance Supplement*.

Cause

The County imposed a local geographic preference and did not establish procedures requiring verification of the suspended and debarred status of contracted vendors.

Recommendation

We recommend the County impose local geographic preferences only when expressly mandated or encouraged by Federal statutes and implement procedures to ensure that procurements and subawards of federally funded projects are verified against the EPLS, obtain a certification or add the required clauses to the contract, for suspension or debarment.

Views of Responsible Officials and Planned Corrective Action

Because these projects were initiated by personnel that are no longer employed by the County, it is impossible to know whether or not a review of the EPLS list was conducted, since no documentation was retained in the project files. The County will perform and document the review in the future as it applies to the Secure Rural Schools program. In addition, the County is reviewing options for revisions to the County Code pertaining to purchasing. The code should be revised to include provisions for federally funded programs, including an exemption from the preference for local vendors.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Finding 2008-52

Program: Secure Rural Schools and Counties
CFDA No.: 10.665
Federal Grantor: U.S. Department of Agriculture
Passed-through: State of California
Award No.: Various
Award Year: 2007-2008
Compliance Requirement: Subrecipient Monitoring

Criteria or Specific Requirement

The *March 2008 Office of Budget and Management (OMB) Circular A-133 Compliance Supplement* states that a pass-through entity is responsible for:

- 1) “Award Identification – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.”
- 2) “During-the-Award Monitoring – Monitoring the subrecipient’s use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”
- 3) “Subrecipient Audits – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient’s audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all findings.”

Condition

For the four subrecipients selected for testing, we noted the following:

- 1) The agreement between the County and the subrecipients did not include the Federal agency name, CFDA title and number, and award information.
- 2) The County did not perform during-the-award monitoring of the subrecipients. As part of the monitoring, the County performs site visits and collects quarterly reports from subrecipients.
- 3) The County did not perform procedures to identify whether the subrecipients were required to have an audit completed in accordance with OMB Circular A-133.

Questioned Costs

\$106,671

Context

The condition noted above was identified during our examination of the Program’s contracts/agreements with subrecipients.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Effect

- 1) The subrecipient agreements do not specifically identify the Federal agency and award information. Accordingly, subrecipients may not be aware that they have received Federal funding, which might require the subrecipient to have a Single Audit performed.
- 2) The County was unable to provide support to demonstrate that subrecipients are monitored during the award. Accordingly, subrecipients may not be properly administering the Federal award and thus may not be in compliance with laws, regulations, and the provisions of contracts or grant agreements.
- 3) Single Audit reports were not updated or requested. Accordingly, the County may be unaware of findings and fail to issue management decisions on those findings and ensure that the subrecipient takes timely corrective action.

Cause

The County did not maintain procedures to ensure that:

- 1) The Federal agency and other Federal award information were identified in the formalized agreement executed with the subrecipients,
- 2) The subrecipients were monitored during the award and,
- 3) The Single Audit reports were requested and obtained as required per OMB Circular A-133.

Recommendation

We recommend the County implement policies and procedures to ensure that information required by OMB Circular A-133 is included in subrecipient agreements, subrecipients are monitored, and subrecipients had required audits completed.

Views of Responsible Officials and Planned Corrective Action

1. The County acknowledges the deficiency and is currently developing a checklist and information packet for Title III program subrecipients that will help staff communicate necessary information and requirements.
2. The County is developing an informational packet and checklist that will assist County staff in meeting the requirements for regular monitoring of projects.
3. The County is developing an informational packet and checklist that will assist County staff in identifying subrecipients meeting the threshold for an annual audit in accordance with OMB A-133.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Finding 2008-53

Program: Airport Improvement Program

CFDA No.: 20.106

Federal Grantor: U.S. Department of Transportation

Passed-through: None

Award No.: Various

Award Year: 2007-2008

Compliance Requirement: Procurement and Suspension and Debarment

Criteria or Specific Requirement

The *March 2008 Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* states that when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties list System (EPLS)*, collecting a certification from the entity or adding a clause or condition to the covered transaction with that entity.

The Federal Aviation Administration (FAA) requires that all engineering services agreements must be reviewed and approved by the FAA.

Condition

Of the two vendors selected for testing, we noted the following:

- 1) No verification was performed for one of the vendors and no certification from the other vendor was collected to ensure the vendor was not suspended and debarred or otherwise excluded.
- 2) For engineering services agreements, no support was provided to demonstrate that, for the one engineering services vendor, the FAA approved the agreement between the County and the vendor.

Questioned Costs

None

Context

The condition noted above was identified during testing of the procurement and suspension and debarment requirements of the program. It was noted that the County had six active projects during the fiscal year ended June 30, 2008. Of the six, five projects were contracted to one vendor. The remaining project was contracted to a different vendor, for a total of two vendors. It was also noted that the County provided a letter from the FAA approving older projects.

Effect

The County increases its risk of non-compliance with procurement, suspension and debarment requirements set forth in *OMB A-133 Compliance Supplement*.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Cause

The County did not consistently perform verification of the suspended and debarred status of contracted vendors and did not consistently obtain the required Federal approvals of engineering services agreements with vendors.

Recommendation

We recommend the County implement procedures to ensure that procurements and subawards of federally funded projects are verified against the EPLS for suspension or debarment, obtain a certification or add the required clauses to the contract for suspension or debarment and the required Federal approvals are obtained where applicable.

Views of Responsible Officials and Planned Corrective Action

- a. Modoc County shall verify that any non-federal entity that enters into a covered transaction with the County of Modoc is not suspended, debarred or otherwise excluded from participating in the project. Appropriate personnel will check the Excluded Parties List System, request certification from the entity, or add a clause or condition to the covered transaction with that entity. Whichever method is used will be documented in the project file
- b. A letter from the FAA approving the engineering service agreement was provided to the Auditors upon request. The County will continue to seek and document appropriate FAA approval for engineering services now and in the future.

Finding 2008-54

Program: Temporary Assistance for Needy Families
CFDA No.: 93.558
Federal Grantor: U.S. Department of Health and Human Services
Passed-through: State of California
Award No.: Various
Award Year: FY 2007-2008
Compliance Requirement: Subrecipient Monitoring

Criteria or Specific Requirement

The *March 2008 Office of Budget and Management (OMB) Circular A-133 Compliance Supplement* states that a pass-through entity is responsible for:

- 1) “*Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.”
- 2) “*During-the-Award Monitoring* – Monitoring the subrecipient’s use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

- 3) “*Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient’s audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all findings.”

Condition

For the one subrecipient selected for testwork, which was 100% of the population, we noted the following:

- 1) The agreement between the County and the subrecipient did not include the Federal award information.
- 2) The County did not perform during-the-award monitoring of the subrecipient.
- 3) The County did not perform procedures to identify whether the subrecipient was required to have an audit completed in accordance with OMB Circular A-133.

Questioned Costs

\$25,000

Context

The condition noted above was identified during our examination of the County’s contracts/agreements with subrecipients. It was noted that the County only had one subrecipient related to the program for the fiscal year ended June 30, 2008.

Effect

- 1) The subrecipient agreements do not specifically identify the CFDA title and number, award name and Federal agency. Accordingly, subrecipients may not be aware that they have received Federal funding, which might require the subrecipient to have a Single Audit performed.
- 2) The subrecipients are not monitored during the award. Accordingly, subrecipients may not be properly administering the Federal award and thus may not be in compliance with laws, regulations, and the provisions of contracts or grant agreements.
- 3) It is not ensured that the subrecipients have a Single Audit performed if required. Accordingly, the County may be unaware of findings and fail to issue management decisions on those findings and ensure that the subrecipient takes timely corrective action.

Cause

The County did not maintain procedures to ensure that:

- 1) The CFDA title and number, award name, Federal agency and other Federal award information were identified in the formalized agreement executed with the subrecipient.
- 2) The subrecipient was monitored during the award.
- 3) The subrecipient had an audit completed as required per OMB Circular A-133.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Recommendation

We recommend the County implement policies and procedures to ensure that information required by OMB Circular A-133 is included in subrecipient agreements, subrecipients are monitored, and subrecipients had required audits completed.

Views of Responsible Officials and Planned Corrective Action

All subrecipient contracts have been modified to follow the OMB Circular A-133 to include the CFDA title and number, award name, Federal agency. A policy is being written to request completed audits of the subrecipients.

Finding 2008-55

Program: Temporary Assistance for Needy Families

CFDA No.: 93.558

Federal Grantor: U.S. Department of Health and Human Services

Passed-through: State of California

Award No.: Various

Award Year: FY 2007-2008

Compliance Requirement: Eligibility and Special Tests and Provisions

Criteria or Specific Requirement

The *March 2008 Office of Budget and Management (OMB) Circular A-133 Compliance Supplement* requires that:

- 1) To be eligible for TANF assistance a family must be determined to be so based on several requirements, including but not limited to the existence of a minor child who lives with a parent or other adult caretaker relative and the family must also be “needy” or financially eligible. The child must be less than 18 years old, or if a full-time student in secondary school, less than 19 years old. To facilitate the eligibility determination the County utilizes the following:
 - a. A program application, referred to as a SAWS1, which must be signed by the applicant and retained in the participant’s file.
 - b. A statement of facts, referred to as a SAWS2, which must be signed by the applicant and retained in the participant’s file. This is obtained both at initial application and during annual re-determination.
 - c. An acknowledgment of the participant’s rights and responsibilities, referred to as a SAWS2A, which must be signed by both the applicant and the caseworker and retained in the participant’s file. This is obtained both at initial application and during annual re-determination.
 - d. QR-7 reports are submitted by the participant’s on a quarterly basis to report any changes in income, housing, or status which may affect eligibility. These reports are required to be signed by both the participant and the caseworker, and retained in the participant’s file.
- 2) The County shall utilize the Income and Eligibility Verification System (IEVS) to verify eligibility using wage information available from agencies such as the agencies administering State unemployment compensation laws, Social Security Administration, and the Internal Revenue Service to verify income eligibility and the amount of eligible benefits. The State of California has used IEVS since 1987 to verify income information received from applicants and recipients. This is obtained both at initial application and during annual re-determination and must be signed by the caseworker.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

- 3) The County may not reduce or terminate assistance for the individual's refusal to engage in required work if the individual demonstrates to the County an inability to obtain needed child care. The State of California requires a CCP 7 (Child Care Provider) form to be completed and signed by the applicant and caseworker, in order to evidence that child care has either been requested to be provided by the County or secured by the applicant.
- 4) The County utilizes a verification of school enrollment form to determine if the child within the Assistance Unit (AU) is actively attending school.

Condition

Of the 40 case files selected for testwork, we noted the following:

- 1) In order to determine initial and on-going eligibility of applicants, caseworkers utilize several tools, including applications, a statement of facts, a statement of rights and responsibilities and quarterly reports.
 - a. We noted 2 files did not contain the SAWS1 application.
 - b. We noted 2 files did not contain the SAWS2A form at initial application.
 - c. We noted 2 files did not contain the SAWS2 statement of facts at annual re-determination.
 - d. We noted 1 file did not contain the SAWS2A form at annual re-determination.
 - e. We noted 3 files contained the SAWS2A forms but we not signed by the caseworkers.
 - f. We noted 9 files did not contain all QR-7 reports.
- 2) Caseworkers are required to verify the age of participants and verify school attendance as applicable. We noted 1 file identified a child older than 18 years of age but did not contain evidence to support that the child was a full-time student in secondary school.
- 3) Caseworkers are required to utilize the Income Eligibility Verification System (IEVS) to verify the eligibility of individuals to receive benefits. As part of County procedure, the IEVS reports are required to be signed by the caseworkers to evidence review. We noted 11 files did not contain the initial application IEVS reports and 17 files did not contain the annual re-determination IEVS reports, for a total of 28 IEVS reports. We also noted that 2 files contained the IEVS reports but they were not signed by the caseworkers.
- 4) Applicants and caseworkers are required to sign the CCP 7 form in order to ensure that child care has been obtained that will enable the applicant to engage in required work. We noted 6 files did not contain the CCP 7 forms.
- 5) Applicants and school representatives are required to complete the Verification of School Enrollment form. We noted 8 files did not contain the verification forms.

Questioned Costs

Questioned costs of \$14,220, based on the exceptions related to missing SAWS1, SAWS2 and IEVS noted above represent the benefit payments for the individual transactions.

Context

The condition noted above was identified during our examination of the County's participant case files of the TANF program.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Effect

The County is not in compliance with eligibility and special test and provision requirements set forth in *OMB A-133 Compliance Supplement*.

Cause

The County's procedures did not ensure that SAWS1 applications, SAWS2 statement of facts, SAWS2A forms, QR-7 reports, IEVS reports, CCP 7 and Verification of School Enrollment forms were consistently present in the case files.

Recommendation

We recommend that the County implement procedures to ensure that the SAWS1 applications, SAWS2 statement of facts, SAWS2A forms, QR-7 reports, IEVS, CCP 7 and Verification of School Enrollment forms and other items used for eligibility determination are consistently obtained and documented in participant case files.

Views of Responsible Officials and Planned Corrective Action

The above recommendations have been implemented by the conversion to the automated C-IV system. However, regarding the CCP 7 Form, Modoc County contracts all parts of the Child Care Program out. All documents are scanned, and forms are automatically generated thus ensuring a more complete case file. IEVS reports are used to verify eligibility using wage information from State unemployment, Social Security and IRS, if any of the three entities do not send their information in to the State, then the reports come sporadically, and the county has no control over this issue. Complaints have been sent to the state regarding this issue. The County has no control of when or if an IEVS report will be sent and should not be penalized. Verbal and written procedures are being put into place for the workers to adhere to the guidelines.

Finding 2008-56

Program: Foster Care

CFDA No.: 93.658

Federal Grantor: U.S. Department of Health and Human Services

Passed-through: State of California

Award No.: Various

Award Year: FY 2007-2008

Compliance Requirement: Reporting

Criteria or Specific Requirement

The County is required to submit a monthly assistance claim to the State. Part of the claim includes the CA800FC report, *Foster Care and Foster Care SB 163-Federal*, which identifies the number of persons in the program and payments for each month. It is due within 20 days of the end of the reporting month.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Condition

One of the twelve monthly reports tested was submitted 2 days after the due date.

Questioned Costs

None

Context

The condition noted above was identified during our examination of the County's reporting process.

Effect

It was noted that the report was prepared and filed however; the report was submitted after the due date.

Cause

The County's procedures did not ensure that the reports are consistently submitted within deadlines.

Recommendation

We recommend that the County strengthen its procedures to ensure that required reports are consistently submitted by the required due dates.

Views of Responsible Officials and Planned Corrective Action

Procedures for getting reports done timely are in effect.

Finding 2008-57

Program: Medicaid Cluster

CFDA No.: 93.778

Federal Grantor: U.S. Department of Health and Human Services

Passed-through: State of California

Award No.: Various

Award Year: FY 2007-2008

Compliance Requirement: Eligibility

Criteria or Specific Requirement

The *March 2008 Office of Budget and Management (OMB) Circular A-133 Compliance Supplement* requires that:

- 1) The County obtains a written application signed under penalty of perjury and includes in each applicant's case records facts to support the decision on the application. The County uses a SAWS1 or MC210 as the program application, which must be signed by the applicant and retained in the participant's file.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

- 2) To be eligible for assistance a family must be determined to be so. To facilitate the eligibility determination the County utilizes the following:
 - a. A statement of facts, referred to as a SAWS2, which must be signed by the applicant and retained in the participant's file. This is obtained both at initial application and can be used during annual re-determination.
 - b. An acknowledgment of the participant's rights and responsibilities, referred to as a SAWS2A or MC219, which must be signed by both the applicant and the caseworker and retained in the participant's file. This is obtained both at initial application and during annual re-determination.
- 3) The County shall use the Income and Eligibility Verification System (IEVS) to verify eligibility using wage information available from such agencies as the agencies administering State unemployment compensation laws, Social Security Administration, and the Internal Revenue Service to verify income eligibility and the amount of eligible benefits. This is obtained both at initial application and during annual re-determination and must be signed by the caseworker.
- 4) The County requires as a condition of eligibility, that each individual requesting service furnish their social security number (SSN) and the County shall utilize the SSN in the administration of the program. The County will obtain a copy of the applicants' social security card and maintain the participants' file.
- 5) The County verifies the SSN of each applicant and recipient with SSA to insure that each SSN furnished was issued to that individual and to determine whether any others were issued. The County uses IEVS to "J-verify" the SSN's of the applicants. The IEVS abstract is signed by the caseworker and maintained in the participant's file.
- 6) The County shall require a proof of U.S. Citizenship or Qualified alien status if the applicant or recipient is not a U.S. citizen. The County will either obtain a birth certificate or a signed certification from the applicant of citizenship through the MC13, Declaration of Citizenship.
- 7) Qualified aliens who entered the U.S. on or after August 22, 1996 are not eligible for assistance for a period of five years, beginning on the date the alien became a qualified alien, unless exempt. The County will utilize the MC13, as identified above, to document the date of entry to the U.S. if a qualified alien.
- 8) The County re-determines the eligibility of recipients with respect to circumstances that may change at least every 12 months. The County collects a statement of facts, referred to as a SAWS2 or MC210RV for annual re-determination, which must be signed by the applicant and retained in the participant's file.

Condition

Of the 40 case files selected for testing, we noted the following:

- 1) In order to determine initial and on-going eligibility of applicants, caseworkers utilize several tools, including applications, a statement of facts, and a statement of rights and responsibilities.
 - a. We noted 3 files did not contain the SAWS1 or MC210 application.
 - b. We noted 16 files did not contain the SAWS2 statement of facts at initial application.
 - c. We noted 6 files did not contain the SAWS2A or MC219 form at initial application.
 - d. We noted 6 files did not contain the SAWS2 or MC210RV form at annual re-determination.
 - e. We noted 8 files contained the SAWS2A or MC219 form at annual re-determination.
- 2) Caseworkers are required to utilize the Income Eligibility Verification System (IEVS) to verify the eligibility of individuals to receive benefits. As part of County procedure, the IEVS reports are required to be signed by the caseworkers to evidence review. We noted 22 files did not contain the initial application IEVS reports and 23 files did not contain the annual re-determination IEVS reports, for a total of 45 IEVS reports. We also noted that 4 files contained the IEVS reports but they were not signed by the caseworkers.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

- 3) Applicants are required to furnish their SSN. The County will obtain a copy of the applicants' social security card and maintain in their file. We noted 4 files did not contain a copy of the social security card.
- 4) Once the applicant's have provided their SSN, the County will use IEVS to verify the number. We noted 15 files did not identify that the SSN was verified.
- 5) Applicants are to required show proof of U.S. Citizenship or Qualified Alien Status if the applicant is not a U.S. citizen. We noted 3 files did not contain a birth certificate or signed MC13 to evidence citizenship and identify the date of entry to the U.S. Additionally, we noted 1 file contained the signed MC13 but did not identify the date of entry to the U.S.

Questioned Costs

None

Context

The condition noted above was identified during our examination of the County's eligibility process.

Effect

The County is not in compliance with eligibility requirements set forth in *OMB A-133 Compliance Supplement*.

Cause

The County's procedures did not consistently ensure that applicant's files document eligibility to receive assistance including program applications, proof of income, verified SSN's, and proof of U.S. Citizenship or Qualified Alien Status.

Recommendation

We recommend that the County implement procedures to ensure that the proof of eligibility is consistently documented in participant case files.

Views of Responsible Officials and Planned Corrective Action

The above recommendations have been implemented by the conversion to the automated C-IV system. All documents are scanned, and forms are automatically generated thus ensuring a more complete case file. IEVS reports are used to verify eligibility using wage information from State unemployment, Social Security and IRS, if any of the three entities do not send their information in to the State, then the reports come sporadically, and the county has no control over this issue. Complaints have been sent to the state regarding this issue. The County has no control of when or if an IEVS report will be sent and should not be penalized. Verbal and written procedures are being put into place for the workers to adhere to the guidelines.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Finding 2008-58

Program: Substance Abuse and Treatment Block Grant
CFDA No.: 93.959
Federal Grantor: U.S. Department of Health and Human Services
Passed-through: State of California
Award No.: Various
Award Year: 2007-2008
Compliance Requirement: Procurement and Suspension and Debarment

Criteria or Specific Requirement

The *March 2008 Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* states that when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties list System (EPLS)*, collecting a certification from the entity or adding a clause or condition to the covered transaction with that entity.

Condition

For the sole program subrecipient, we noted that no verification was performed and no certification from the subrecipient was collected to ensure the subrecipient was not suspended and debarred or otherwise excluded.

Questioned Costs

None

Context

The condition noted above was identified during testing of the suspension and debarment requirements of the program. It was noted that the County only had one subrecipient related to the program for the fiscal year ended June 30, 2008.

Effect

The County increases its risk of non-compliance with procurement in accordance with suspension and debarment requirements set forth in *OMB A-133 Compliance Supplement*.

Cause

The County did not establish procedures requiring verification of the suspended and debarred status of contracted subrecipients.

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Recommendation

We recommend the County implement procedures to ensure that procurements and subawards of federally funded projects are verified against the EPLS, obtain a certification or add the required clauses to the contract, for suspension or debarment.

Views of Responsible Officials and Planned Corrective Action

We appreciate the auditor bringing this requirement to our attention. Modoc County Alcohol & Drug Services will develop and implement procedures to ensure that entities are not suspended or debarred or otherwise excluded prior to procurements and subawards. We will include:

- 1) Checking the *Excluded Parties List System (EPLS)*; and/or
- 2) Requiring a certification from the entity; and/or
- 3) Adding a clause or condition to the contract or covered transaction with that entity.

Finding 2008-59

Program: Substance Abuse and Treatment Block Grant
CFDA No.: 93.959
Federal Grantor: U.S. Department of Health and Human Services
Passed-through: State of California
Award No.: Various
Award Year: 2007-2008
Compliance Requirement: Reporting

Criteria or Specific Requirement

Per the contract with the State the County shall:

- 1) Submit a monthly Drug and Alcohol Treatment Access Report (DATAR) report in an electronic copy format as provided by the State.
- 2) Ensure that all DATAR reports are submitted to the State by the 10th of the month following the report activity month.

Condition

Of the 12 reports tested we noted 1 report was submitted after the due date.

Questioned Costs

None

Context

The condition noted above was identified during our examination of the County's reporting process.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Effect

It was noted that the report was prepared and filed however; the report was submitted after the due date.

Cause

The County's procedures did not ensure that the reports are consistently submitted within deadlines.

Recommendation

We recommend that the County strengthen its procedures to ensure that required reports are consistently submitted by the required due dates.

Views of Responsible Officials and Planned Corrective Action

Modoc County Alcohol & Drug Services will strengthen procedures to ensure that reports are consistently submitted by the required due dates by instituting a reports checklist to be completed by responsible staff, and verified by the Deputy Director. The checklist will include an on-going list of all reports, their due dates, and the dates submitted.

Finding 2008-60

Program: Substance Abuse and Treatment Block Grant
CFDA No.: 93.959
Federal Grantor: U.S. Department of Health and Human Services
Passed-through: State of California
Award No.: Various
Award Year: 2007-2008
Compliance Requirement: Subrecipient Monitoring

Criteria or Specific Requirement

The *March 2008 Office of Budget and Management (OMB) Circular A-133 Compliance Supplement* states that a pass-through entity is responsible for:

- 1) "*Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements."
- 2) "*During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

- 3) “*Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient’s audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all findings.”

Condition

For the sole program subrecipient selected for testing, we noted the following:

- 1) The agreement between the County and the subrecipient did not include the Federal agency name and award information.
- 2) The County represented that a site visit as part of during-the-award monitoring of the subrecipient was performed. However, the County did not document the review and results of the visit and was unable to provide support to evidence the visit. Additionally, the County was unable to provide the quarterly reports submitted by the subrecipient.
- 3) The County ensured that the subrecipient met the audit requirements of OMB Circular A-133. However, the County did not perform a review of the subrecipient’s audit report.

Questioned Costs

None

Context

The condition noted above was identified during our examination of the County’s contracts/agreements with subrecipients. It was noted that the County only had one subrecipient related to the program for the fiscal year ended June 30, 2008.

Effect

- 1) The subrecipient agreements do not specifically identify the Federal agency. Accordingly, subrecipients may not be aware that they have received Federal funding, which might require the subrecipient to have a Single Audit performed.
- 2) The County was unable to provide support to demonstrate that subrecipients are monitored during the award. Accordingly, subrecipients may not be properly administering the Federal award and thus may not be in compliance with laws, regulations, and the provisions of contracts or grant agreements.
- 3) It is not ensured that the subrecipients have a Single Audit performed if required. Accordingly, the County may be unaware of findings and fail to issue management decisions on those findings and ensure that the subrecipient takes timely corrective action.

Cause

The County did not maintain procedures to ensure that:

- 1) The Federal agency and other Federal award information were identified in the formalized agreement executed with the subrecipient.
- 2) Support was maintained to evidence that the subrecipient was monitored during the award.
- 3) The subrecipient had an audit completed as required per OMB Circular A-133.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

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III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Recommendation

We recommend the County implement policies and procedures to ensure that information required by OMB Circular A-133 is included in subrecipient agreements, subrecipients are monitored, and subrecipients had required audits completed.

Views of Responsible Officials and Planned Corrective Action

- 1) Modoc County Alcohol and Drug Services will include the Federal Agency name and award information in all agreements with subrecipients of federal awards. Alcohol and Drug Services no longer has an agreement or contract with the subrecipient referenced in the draft audit report (the funding ended in 2008/09). The Federal Agency name and award information will be included in any future agreement with subrecipients of federal funds.
- 2) Modoc County Alcohol and Drug Services will continue to perform site visits as part of awards for any future subrecipient. A procedure will be implemented to document the site visit, and a site visit report will be provided to the subrecipient, with a copy maintained in Alcohol and Drug Services monitoring files.
- 3) The County will work with the County Auditor to develop and implement review procedures to ensure that subrecipients have conducted an audit in accordance with federal requirements.

Finding 2008-61

Program: Substance Abuse and Treatment Block Grant
CFDA No.: 93.959
Federal Grantor: U.S. Department of Health and Human Services
Passed-through: State of California
Award No.: Various
Award Year: 2007-2008
Compliance Requirement: Cash Management

Criteria or Specific Requirement

The *March 2008 Office of Budget and Management (OMB) Circular A-133 Compliance Supplement* states that interest earned on advances by local government grantees or subgrantees is required to be submitted promptly, but at least quarterly, to the Federal Agency. Up to \$100 per year may be kept for administrative expenses.

Condition

During our inquiry of program personnel we noted that funds are advanced to the County. We also noted that the employees of the County’s Department of Health Services that administer the Substance Abuse Prevention and Treatment Block Grant were not aware of the compliance requirements for the interest earned from the Federal funds advances and did not remit or report the interest earned on advances for Substance Abuse Prevention and Treatment Block Grant to the Federal Agency.

COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, (Continued)
YEAR ENDED JUNE 30, 2008

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS, (Continued)

Questioned Costs

Questioned costs of \$4,593 representing the amount of interest earned during the year.

Context

The condition noted above was identified during our examination of the County's receipt of program funds.

Cause

The County did not maintain procedures to ensure that interest earned from the advanced program funds is properly and timely remitted or reported to the Federal Agency.

Effect

The County is not in compliance with cash management requirements set forth in *OMB A-133 Compliance Supplement*.

Recommendation

We recommend that the County strengthen its procedures to ensure that interest earned on advances is remitted, at least quarterly, to the Federal Agency. Alternatively, the County should request and receive approval by the Federal Agency for the use of the funds.

Views of Responsible Officials and Planned Corrective Action

Through communication with the Modoc County Auditor and Modoc County Treasurer, Modoc County Alcohol and Drug Services is now receiving interest on all Alcohol and Drug advances, including SAPT funds. The Deputy Director will communicate with the county Auditor and Treasurer to determine a mechanism for determining the amount of interest in Fund #121 that is due from SAPT dollars.

Modoc County is not a direct recipient of SAPT funds. In fact, Modoc County is a subrecipient through a contract with the State of California, Department of Alcohol and Drug Programs. The Deputy Director will communicate with the State Department of Alcohol and Drug Programs to determine the appropriate procedures for approval by the Federal Agency for use of the interest funds, or, alternately, the procedures for remitting the interest earned to the Federal Agency.

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COUNTY OF MODOC, CALIFORNIA

**SCHEDULE OF PRIOR YEAR AUDIT
FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2008**

None were reported.

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