

**COUNTY OF TRINITY**

**Management Report  
with Required Communication**

**For the Year Ended June 30, 2013**

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**COUNTY OF TRINITY**

Management Report  
For the Year Ended June 30, 2013

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GALLINA<sub>LLP</sub>

CERTIFIED PUBLIC ACCOUNTANTS

Board of Supervisors  
County of Trinity  
Weaverville, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Trinity (County) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 10, 2013. Professional standards also require that we communicate to you the following information related to our audit as discussed in the Required Communications section of this report.

In planning and performing our audit of the basic financial statements of the County for the fiscal year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

We previously reported on the County's internal control in our Single Audit report dated February 28, 2014, which contains our report on significant deficiencies and material weaknesses in the County's internal control. This letter does not affect our report dated February 28, 2014, on the basic financial statements of the County of Trinity.

During our audit we also became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This report is intended for the use of management, the Board of Supervisors, and officials of the federal and state grantor agencies.

We thank the County's staff for its cooperation during our audit.

Roseville, California  
February 28, 2014

## COUNTY OF TRINITY

Required Communication  
For the Year Ended June 30, 2013

### **Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated June 10, 2013, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles and to express opinions based on the assurance obtained. Because an audit is designed to provide reasonable, but not absolute assurance, and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the County's major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

### **Planned Scope of Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated June 10, 2013.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### **Significant Accounting Estimates**

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

- Management believes receivables are fully collectible based on historical experience. Accordingly, no allowance for doubtful accounts is included in the financial statements.

## COUNTY OF TRINITY

Required Communication  
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- Management's estimate of risk liabilities and liabilities related to other postemployment benefits (OPEB) is based on either actuarially-determined projections prepared by outside specialists using experiential data gathered over the last several years.
- Management's estimate of solid waste landfill closure and post-closure costs is based on an accumulation of the costs of required closure and postclosure activities adjusted for inflation approved by the California Integrated Waste Management Board.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

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

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

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### **Immaterial Misstatements Not Corrected by Management**

Management passed on the following adjustments:

- Adjustment to total pooled cash to account for the fair value of the County's investments at June 30, 2013.

### **Disagreements with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated February 28, 2014.

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

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

## **COUNTY OF TRINITY**

Required Communication  
For the Year Ended June 30, 2013

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

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Other Supplementary Information Accompanying the Audited Financial Statements**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.



## COUNTY OF TRINITY

### Management Report – Current Year Comments and Recommendations For the Year Ended June 30, 2013

#### **NEGATIVE CASH BALANCES**

##### Criteria

Good cash management and control activities involve properly managing the flow of cash receipts and expenditures in each fund.

##### Condition

We noted that various County Funds are carrying negative cash balances in the Treasurer's Investment Pool. Though the County recorded interfund liabilities as required by generally accepted accounting principles to eliminate the cash deficits for reporting purposes and has adopted a formal policy for addressing overdrawn accounts, it still had several grant funds with negative cash balances at the end of the fiscal year.

##### Cause

Deficit cash may be caused by poor budgeting by departments, late billings for reimbursement-based grants or payment delays from other governments.

##### Effect of Condition

Overdrawn accounts are an indication that cash management policies of the County are not effective. In some cases, the cash deficits have been caused by departments not properly managing the flow of cash receipts and expenditures. Some programs may not be generating sufficient resources to support continued operations.

##### Recommendation

Initially, we recommend the County and its departments review all funds with deficit cash balances and determine why the fund has a deficit cash balance and provide a process for the elimination of the deficit, as well as the time frame to doing so.

On an ongoing basis, we recommend the County implement a process that would not allow a fund's share of the pooled cash to be deficit unless certain approvals from management are in place. Consideration should be given to implementing cash planning procedures at the department level where each department is held responsible for resolving existing cash deficits and then implementing steps that will prevent or at least minimize deficit cash balances.

**COUNTY OF TRINITY**

Management Report – Current Year Comments and Recommendations  
For the Year Ended June 30, 2013

**NEGATIVE CASH BALANCES** (continued)

The following schedule summarizes County funds with negative cash balances, excluding fiduciary funds, tax resources fund (\$859,438) and the hospital fund (\$4,687,838) since these funds are not related to a program or grant:

**Funds with Negative Cash Balances  
June 30, 2013**

<u>Fund</u>	<u>Fund Name</u>	<u>Balance</u>
111	HUMAN SERVICES	\$ 541,197
112	BEHAVIORAL HEALTH SERVICES	409,359
134	ANTI-DRUG ABUSE DA	11,971
136	MARIJUANA SUPPRESSION PROGRAM	86,577
146	MARIJUANA SUPP PROGRAM - S.O.	61,248
147	EMERGENCY SERVICES	372,671
153	AIRPORT DEVELOPMENT MAINT	7,854
158	EMERGENCY OPERATIONS GRANT	116,882
159	DISASTER RECOVERY INITIATIVE	445,934
160	TRANSIT FUND	154,407
173	NATURAL RESOURCES	262,068
176	WOMEN, INFANTS & CHILDREN	58,997
177	ALCOHOL & OTHER DRUG SERVICES	40,470
182	CDBG REHAB ACCOUNT	177,264
184	MISC GRANTS	460,663
187	STATE GRANTS	36,553
190	APPOE GRANT TCDA	47,282

Management Response

The County concurs with this finding.

## COUNTY OF TRINITY

### Management Report – Status of Prior Year Recommendations For the Year Ended June 30, 2013

#### **NEGATIVE CASH BALANCES**

##### Recommendation

Initially, we recommend the County and its departments review all funds with deficit cash balances and determine why the fund has a deficit cash balance and provide a process for the elimination of the deficit, as well as the time frame to doing so.

On an ongoing basis, we recommend the County implement a process that would not allow a fund's share of the pooled cash to be deficit unless certain approvals from management are in place. Consideration should be given to implementing cash planning procedures at the department level where each department is held responsible for resolving existing cash deficits and then implementing steps that will prevent or at least minimize deficit cash balances.

##### Status

In Progress