COUNTY OF TRINITY

Management Report with Required Communication

For the Year Ended June 30, 2016

GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

COUNTY OF TRINITY

Management Report
For the Year Ended June 30, 2016

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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, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), 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 May 18, 2016. 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, 2016, 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 December 29, 2016, which contains our report on significant deficiencies and material weaknesses in the County's internal control. This letter does not affect our report dated December 29, 2016, 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.

Gallina LLP

Roseville, California
December 29, 2016

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Our Responsibilities Under U.S. Generally Accepted Auditing Standards and *Title 2 CFR* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (*the Uniform Guidance*)*

As communicated in our engagement letter dated May 18, 2016, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the County of Trinity solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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 the Uniform Guidance.

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 the Uniform Guidance, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Uniform Guidance Compliance Supplement applicable to each of its 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.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, and as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

COUNTY OF TRINITY

Required Communication
For the Year Ended June 30, 2016

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the County of Trinity is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2016.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of the claims liabilities is based on actuarial valuation reports obtained from experts.
- Management's estimate of the other post-employment benefits (OPEB) liability is based on actuarial valuation reports obtained from experts.
- Management's estimate of the net pension liability and related deferred inflows/outflows is based on actuarial valuation reports obtained from CalPERS.
- Management's estimate of the liability for the landfill closure/postclosure care costs is based on the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period.

We evaluated the key factors and assumptions used to develop the estimates described above and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Significant Difficulties Encountered in Performing the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. No material misstatements were noted as a result of our audit.

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, which could be significant to the County of Trinity's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letters dated December 29, 2016.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the County of Trinity, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the County of Trinity's auditors.

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

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.

NEGATIVE CASH BALANCES (continued)

The following schedule summarizes County funds with negative cash balances, excluding fiduciary funds, tax resources fund ($937,944) and the hospital fund ($4,676,170) since these funds are not related to a program or grant:

Fund	Fund Name	Balance June 30, 2016
147	EMERGENCY SERVICES	$ 148,561
159	DISASTER RECOVERY INITIATIVE	42,211
173	NATURAL RESOURCES	264,509
176	WOMEN, INFANTS & CHILDREN	80,617
177	ALCOHOL & OTHER DRUG SERVICES	144,251
182	CDBG REHAB ACCOUNT	187,199
184	MISC GRANTS	474,635
191	PROTECTION ORDER ENFORCEMENT	8
193	GRANTS ADMINISTRATION	12,193
543	HOSPITAL PREPAREDNESS PROGRAM	80,173
550	CDC PUB HLTH EMERG PREP	78,593
556	SHERIFF INMATE FUND	2,548

Management Response

The County concurs with this finding.

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

REVIEW OF TREASURER'S DAILY CASH CONTROL

Recommendation

We recommend the County implement controls to ensure the Treasurer's Daily Cash Control summary is thoroughly reviewed prior to certification and submitted timely to allow the Auditor-Controller's Office to reconcile cash in the general ledger to the Treasurer's balance timely.

While the Auditor-Controller reviews the Treasurer's cash on a monthly basis, we further recommend the Auditor-Controller perform a more in-depth audit of the Treasury's cash and investments at least once every quarter in accordance with Government Code section 26920(b). These audits should include reconciliations of the deposit and investment balances to the external bank statements and/or bank confirmations with all significant timing differences being accounted for.
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Status

Implemented.