

**COUNTY OF TRINITY**

**Management Report  
with Required Communication**

**For the Year Ended June 30, 2011**

**COUNTY OF TRINITY**

Management Report  
For the Year Ended June 30, 2011

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Board of Supervisors  
County of Trinity  
Weaverville, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Trinity (County) for the year ended June 30, 2011. 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 29, 2011. 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, 2011, 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.

Board of Supervisors  
County of Trinity

We previously reported on the County's internal control in our Single Audit report dated March 9, 2012, which contains our report on significant deficiencies and material weaknesses in the County's internal control. This letter does not affect our report dated March 9, 2012, on the basic financial statements of the County of Trinity.

During our audit we also became aware of several matters that are opportunities 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  
March 9, 2012

## COUNTY OF TRINITY

Required Communication  
For the Year Ended June 30, 2011

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

As stated in our engagement letter dated June 29, 2011, 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 29, 2011.

# COUNTY OF TRINITY

Required Communication  
For the Year Ended June 30, 2011

## 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.

As described in Note 9 to the financial statements, the County adopted Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 established new accounting and reporting standards for all governments that report governmental funds. The statement provides more clearly defined categories within fund balance to make the nature and extent of the constraints placed on fund balance more transparent.

Other than GASB 54 as described in the preceding paragraph, no new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2011. 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.
- 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.

## **COUNTY OF TRINITY**

Required Communication  
For the Year Ended June 30, 2011

### **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. The following material adjustments detected as a result of audit procedures were corrected by management:

- Adjust construction in progress maintained by the County's Department of Transportation by approximately \$11 million to properly capitalize accumulated road and airport project costs.

The County agreed to record this adjustment to the June 30, 2011 audit report.

### **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, 2011.

### **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 March 9, 2012.

### **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.

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### **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, 2011

#### COMMENDATIONS

The County has made noteworthy efforts to improve its year-end closing and financial statement preparation process and should be commended for its efforts. Based on the 2008-09 findings and the appointment of a new Auditor-Controller, the County hired a consultant to assist and train County personnel with the various closing and reporting processes, including producing various account reconciliations (grants, loans, etc.), closing entries (capital assets, long-term liabilities, etc.), footnotes and other financial reports needed by management and the outside auditors. The consultant also assisted the County with implementing the new accounting standard, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* which significantly impacts how the County's fund balance is reported.

With the County now compiling its own footnotes and other schedules needed for the annual audit report, the County will soon be able to publish its own financial statements though we understand its current financial system currently has limitations for producing financial statements. We encourage the county to continue to improve its year-end closing processes and continue to take upon itself additional financial statement preparation until the Auditor-Controller's Office is able to prepare the entire financial statements and footnotes, including final printing and distribution without any outside assistance.

## COUNTY OF TRINITY

### Management Report – Current Year Comments and Recommendations For the Year Ended June 30, 2011

#### **DISAGGREGATION OF RECEIVABLES**

##### Criteria

Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Disclosures*, requires components of significant receivables to be disclosed in the financial statements. Components of receivables include accounts receivable (due from citizens), taxes (property, sales taxes, transient occupancy) receivable, interest receivable, amounts due from other governments and notes receivable.

##### Condition

Currently, the County records accounts receivable and due from other governments within the same receivable account within its general ledger. The County's chart of accounts does not currently have separate accounts for the various types of receivables.

##### Cause

The County's chart of accounts does not currently have separate accounts for the various types of receivables.

##### Effect of Condition

By not properly classifying receivables in its general ledger, the County is relying on external spreadsheets to ensure receivables are properly disclosed for financial reporting.

##### Recommendation

We recommend the County modify its chart of accounts to include separate accounts for accounts receivable and amounts due from other governments. Year-end closing procedures should be modified to capture receivable balances into each of these accounts according to their nature.

##### Management Response

The County concurs with this finding and will work to modify the chart of accounts and update year-end closing procedures as recommended.

# COUNTY OF TRINITY

## Management Report – Current Year Comments and Recommendations For the Year Ended June 30, 2011

### **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.

#### Management Response

The County concurs with this finding.

## COUNTY OF TRINITY

### Management Report – Current Year Comments and Recommendations For the Year Ended June 30, 2011

#### NEGATIVE CASH BALANCES (continued)

The following schedule summarizes County funds with negative cash balances, excluding fiduciary funds, tax resources fund (\$391,171) and the hospital fund (\$4,707,076) since these funds are not related to a program or grant:

Funds with Negative Cash Balances			
June 30, 2011			
Fund	Fund Name		Balance
111	HUMAN SERVICES		174,230
112	BEHAVIORAL HEALTH SERVICES		267,268
134	ANTI-DRUG ABUSE DA		3,356
144	LAKE PATROL		104,164
145	ANTI-DRUG ABUSE SHERIFF		18,341
146	MARIJUANA SUPP PROGRAM- S.O.		35,151
147	EMERGENCY SERVICES		41,931
149	NATIONAL FOREST ERADICATION		11,625
150	ADA RECOVERY ACT PROGRAM		7,705
153	AIRPORT DEVELOPMENT MAINT		52,823
163	AMERICAN RECOVERY ACT PROBAT		5,332
173	NATURAL RESOURCES		259,403
176	WOMEN, INFANTS & CHILDREN		55,644
182	CDBG REHAB ACCOUNT		172,874
184	MISC GRANTS		456,077
186	FEDERAL GRANTS		11,575
187	STATE GRANTS		17,868
165	VICTIM WITNESS PROGRAM		1,486