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MAY 19 2004

SUPERIOR COURT OF CALIFORNIA
COUNTY OF TRINITY
BY: DONNA REGNANI, DEPUTY CLERK *DR*

**TRINITY COUNTY GRAND JURY
2003-2004**

**SPECIAL COMMITTEE
FINAL REPORT**

**COMPLIANCE ON ANNUAL AUDITS
FOR SPECIAL DISTRICTS**

**This report was approved
On May 10, 2004**

**2003-2004 TRINITY COUNTY GRAND JURY
SPECIAL COMMITTEE
FINAL REPORT**

**COMPLIANCE ON ANNUAL AUDITS
FOR SPECIAL DISTRICTS**

PURPOSE:

This report is in response to a Citizen's Complaint #38 and a follow-up to the 2002—2003 Grand Jury Special District Committee's Final Report entitled, "Compliance On Annual Audits". The 2002—2003 Grand Jury report failed to mention that Government Code §26909 allows, if selected (see below), a two-year or five-year cycle of audits for a Special District (District). The District can shift from an annual audit to a biennial audit with the unanimous approval of the District's governing board. A District can also shift to an audit once every five years if the size of the District's budget is below a threshold set by the County Board of Supervisors (BOS). When the District and/or the BOS agree (see above) then the audit can be submitted on the year cycle chosen.

BACKGROUND:

Districts are required by Government Code §26909 to submit an audit within 12 months of the end of the fiscal year or years under examination.

A reprint of California Government Code §26909 is re-printed below:

(a) 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 purpose 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.

(b) Where an audit of a district's accounts and records is made by a certified public accountant or public accountant, the minimum requirements of the audit shall be prescribed by the Controller and shall conform to generally accepted auditing standards, and a report thereof shall be filed with the Controller and with the county auditor of the county in which the district is located. The report shall be filed within 12 months of the end of the fiscal year or years under examination.

(c) Any costs incurred by the county auditor, including contracts with, or employment of, certified public accountants or public accountants, in making an audit of every special purpose district pursuant to this section shall be borne by the district and shall be a charge against any unencumbered funds of the district available for the purpose.

(d) For joint districts lying within two or more counties, the above provisions shall apply to the auditor of the county in which the treasury is located.

(e) The county controller, or ex officio county controller, shall affect this section in those counties having a county controller, or ex officio county controller.

(f) A special district may, by unanimous request of the governing board of the special district, with unanimous approval of the board of supervisors, replace the annual audit with a biennial audit covering a two-year period or, if the district's annual budget does not exceed an amount specified by the board of supervisors, an audit covering a five-year period.

NOTE: All of the following sections (not pertinent to the audit cycle herein studied) may be found on the California website for Government Audits).

Method of Investigation:

The Committee reviewed Government Code §26909 and the 2002—2003 Trinity County Grand Jury Final Report.

FINDING #1:

The Special Grand Jury Committee found a great deal of misunderstanding exists within the County regarding the audit cycle requirements of Government Code §26909 (f) for District's, which allows a one-year or two-year or five-year audit cycle (see above in Purpose). It was further discovered by conversations with the County Auditor/Controller, Board of Supervisors members and Special District Board members that varying interpretations or requirements are being applied, at will. This variation of audit cycle selections is not well understood.

RECOMMENDATION #1:

The Grand Jury recommends that each District, County Auditor/Controller, BOS member, appropriate CPA or public accountant read thoroughly Government Code §26909 with special attention to paragraph (f) [see above], which allows a one-year or two-year or five-year audit cycle to be selected.

The Grand Jury further recommends that the County Auditor/Controller and the Board of Supervisors consult with the Districts in order to select the appropriate audit cycle (see Government Code §26909 (f) above, which best suits their individual situation.

FINDING #2:

Government Code §26909 (f) authorizes a five-year audit cycle providing the BOS adopts an annual budget threshold not to be exceeded by the District.

RECOMMENDATION #2:

The BOS adopt a budget threshold for Districts to qualify for a five-year audit cycle and announce this to all Districts within the County

CONCLUSION:

The Grand Jury thanks all of those volunteers who serve their particular area of interest especially the Fire Fighters and Medical Aid personnel.

The escalating costs of the audit, as prescribed by Government Code §26909, is increasingly difficult for some District's within the county to pay from their budgets. In some cases the cost of the audit(s) actually impedes the District's from performing the very services they are intended to perform. The Grand Jury, by this Final Report, continues to highlight the appropriate section of Government Code §26909 (f), which can authorize a one-year, two-year or five-year audit cycle, as applicable.

SPECIAL NOTICE:

The Grand Jury takes Special Notice that some current Grand Juror's serve on selected District's or Community Service organizations covered by this report. Those affected Grand Jurors excluded themselves from participating in discussion or voting.

RESPONSES REQUIRED:

All of the recommendations listed above are directed to the Board of Supervisors or their designated staff. Under Penal Code 933, the following entities are required to respond to the listed findings within the time period indicated:

Board of Supervisors (BOS)	90 Days
Auditor/Controller	60 Days
Acting County Administrative Officer (CAO)	60 Days

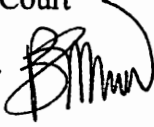


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TRINITY COUNTY

BRIAN E. MUIR, COUNTY AUDITOR-CONTROLLER
DAVID NELSON, CHIEF DEPUTY AUDITOR-CONTROLLER
P.O. BOX 1230, WEAVERVILLE, CALIFORNIA 96093
PHONE (530) 623-1317 FAX (530) 623-1323

TO: The Honorable Anthony Edwards,
Presiding Judge of the Superior Court

FROM: Brian Muir, Auditor – Controller 

CC: Kelly Frost, Deputy Clerk to the Board of Supervisors

SUBJECT: Response to Recommendations of 2003-04 Grand Jury Special Committee Report
re: Compliance on Annual Audits for Special Districts

DATE: July 2, 2004

The Grand Jury Special Committee has requested a written response to their final report on Compliance on Annual Audits for Special Districts. In my capacity as Auditor/Controller performing the duties of County Administrative Officer my response is as follows:

Finding #1: The Special Grand Jury Committee found a great deal of misunderstanding exists within the County regarding the audit cycle requirements of Government Code §26909(f) for District's, which allows a one-year or two-year or five-year audit cycle. It was further discovered by conversations with the County Auditor/Controller, Board of Supervisors members and Special District Board members that varying interpretations or requirements are being applied, at will. This variation of audit cycle selections is not well understood.

Response: I disagree. The requirements of the law are not being applied at will. In fact, the requirements of the law are being uniformly applied.

Recommendation #1: The recommendation has been implemented. As County Auditor/Controller I have read and understand Government Code 26909. As in the past, I will be available to assist special districts in understanding the Code provisions and advising them on appropriate audit cycles.

Finding #2: Government Code §26909(f) authorizes a five-year audit cycle providing the BOS adopts an annual budget threshold not to be exceeded by the District.

Response: I agree.

Recommendation #2: Implementation of the recommendation is a decision of the Board of Supervisors. The issue will be placed on the Board agenda within 60 days. The Board will have to weigh the right of citizens to know how government funds are used against the minimal savings created by a five-year audit cycle.



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BOARD OF SUPERVISORS
P.O. BOX 1613, WEAVERVILLE, CALIFORNIA 96093
PHONE (530) 623-1217 FAX (530) 623-8365

TO: *The Honorable Anthony Edwards*

FROM: *Trinity County Board of Supervisors*

SUBJECT: *Response to the 2003-04 Trinity County Grand Jury
Special Committee Final Report
"Compliance on Annual Audits for Special Districts"*

DATE: *August 9, 2004*

1177
8-17-04

The Grand Jury Special Committee has requested a written response to their final report on "Compliance on Annual Audits for Special Districts".

Finding # 1:

We disagree with the finding. The requirements of the law are not being applied at will. The requirements of the law are being uniformly applied.

Recommendation #1:

The recommendation has been implemented. The Board of Supervisors and the County Auditor/Controller understand Government Code 26909. The Auditor/Controller is available to assist Special Districts in understanding the Code and advising them on appropriate audit cycles. If the Special Districts need assistance, they should contact the Auditor/Controller immediately.

Finding #2:

We agree with the finding. Government Code 26909 authorizes a five-year audit cycle providing the Board of Supervisors adopts an annual budget threshold not to be exceeded by the District.

Recommendation #2:

The recommendation was on the Board of Supervisor's Agenda for July 20, 2004. At that meeting the Board voted to not set a budget threshold that would allow a 5-year cycle for audits. That decision was based on the minimal savings created by a 5-year audit cycle vs. the public's right to know how government funds are used. Also, the changing of personnel within the Special Districts can make a 5-year audit cycle extremely difficult. If saving precious dollars is the issue, perhaps the Special Districts should consider forming a Joins Power Agreement that would allow them, as a larger organization, to go to a competitive bid process for all of their audits.

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BILL CHAMBERS
DISTRICT 1

BILLIE MILLER
DISTRICT 2

RALPH MODINE
DISTRICT 3

HOWARD FREEMAN
DISTRICT 4

VACANT
DISTRICT 5