COUNTY OF MARIN

Management Report
For the Year Ended June 30, 2010

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GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Members of the
Board of Supervisors
of the County of Marin
San Rafael, California

In planning and performing our audit of the financial statements of the County of Marin (County) as of and for the year ended June 30, 2010, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions and the status of our comments and suggestions concerning certain recommendations made in the County's prior year audit. We previously reported on the County's internal control in our report dated February 16, 2011. This letter does not affect our report dated February 16, 2011, on the financial statements of the County of Marin.

The County's management has provided responses to the comments described in the memorandum that accompanies this letter. We did not audit the County's responses and accordingly, we express no opinion on it.

This report is intended for the use of management, the Board of Supervisors, the Grand Jury, and officials of the federal and state grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

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

Gallina LLP

Roseville, California
February 16, 2011

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COUNTY OF MARIN

Management Report
Required Communication
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Professional standards require that we provide you with the following information related to our audit.

The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 17, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your 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 misstatements. 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 County's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the County 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 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 U.S. Office of Management and Budget (OMB) Circular A-133 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated August 17, 2010.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

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. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 were:

- Accrual and disclosure of compensated absences: Management's estimate is based on information collected in the County's payroll system using current pay rates and past experience on employee use of compensating time-off. Our audit agreed balances reported in the financial statements to those in the County's payroll system.
- Capital asset lives and depreciation expense: Management's estimate is based on past experience. We scanned depreciation listings for reasonable compliance to this approach.
- Valuation of risk management liabilities: Management's estimate is derived from actuarial reports obtained from experts. We agreed the claims liability reported in the financial statements to information derived from those reports.

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.

The following misstatement detected as a result of audit procedures was corrected by management.

- An audit adjustment of $2.5 million was made to the financial statements to reduce the other postemployment benefit obligation to agree to the actuarial report.

In addition there were the following immaterial misstatements identified during the audit. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Record an increase to cash and investments in the amount of $1,415,340 which represents the difference between fair market value and the amortized cost of investments reflected on the County's financial statements.
- Reduce overall cash in the Agency Funds by $1,035,071 for taxes received in July but posted as of June 30.
- Record retentions payable associated with construction contracts totaling $500 thousand

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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 16, 2011.

Management Consultations with Other Independent Accountants

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.

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 County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

ACCOUNTING FOR GOVERNMENTAL TRUST FUNDS

Criteria

The County adopted the provisions of GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2002. GASB 34 states that assets held for the government should no longer be reported in fiduciary funds, but rather in governmental or proprietary funds, as appropriate

Condition

Currently, the County maintains approximately fifty (50) trust funds whose activity must be analyzed and summarized outside of the accounting system for integration into the financial statements at year end.

Due to the structure of these trust funds within the accounting system, the County is not able to fully utilize the capabilities of its accounting system to generate reports necessary for financial reporting and budgeting of these trust funds and has to rely on electronic spreadsheets for summarizing the activity of each of these funds. For example, the County is not able to generate revenue and expenditure budgetary comparisons by account or generate a summary of activity by revenue and expenditure type for a particular fund without manually summarizing the activity. In addition, we noted that there were some direct payments being made out of some funds without any budgetary consequences since revenues and disbursements are not compared against the adopted budget unless the funds are transferred from the trust funds to an existing governmental fund.

Cause

The County did not fully implement Governmental Accounting Standards Board's Statement No. 34 prior to the installation of its new accounting system. This made the year-end "closing" process cumbersome, and necessitated a series of spreadsheets and other processes to enable adequate financial reporting.

Effect of Condition

By not fully utilizing the accounting system to report the activity of these governmental trust funds, staff is summarizing the activity using electronic spreadsheets which 1) can cause errors in exporting information into these spreadsheets and 2) increase the possibility of the County doubling-up revenues and expenditures for monies that are transferred from these trust funds to existing County funds. In addition, because the County does not budget for any activity occurring in these trust funds, it is not able to properly address any possible significant deviations from the adopted budget.

ACCOUNTING FOR GOVERNMENTAL TRUST FUNDS (continued)

Recommendation

We recommend that the Department of Finance consider utilizing its accounting system to account for the activity of governmental trust funds rather than the labor-intensive process of transferring data onto spreadsheets and to budget for trust fund activity. To implement this process, the Department of Finance will need to close out the governmental trust funds from the trust funds where they are currently being reported and either combine the balances with an existing governmental fund or create new funds that use the budgetary object code reporting structure. This is a repeat of a prior year recommendation.

Management Response

The Department of Finance in conjunction with the County Administrator's Office and other County departments began last year the implementation of solutions to correctly account for and budget certain "Special Revenue" funds, referred to as "Trust Funds". This has been a transitional process which will be complete by year end.

BOARD APPROVAL OF BUDGET ADJUSTMENTS

Criteria

The Board should approve adjustments to the budget on a periodic basis in order to ensure management oversight by the Board in accordance with Government Code Section 29125.

Condition

The Board issues an annual authorization letter, which gives the Department of Finance (DOF) and the County Administrative Officer (CAO) the authorization to adjust budgets as needed, with the exception of capital projects and grants which must be approved by the Board.

Cause

The authorization letter is considered by the Board, the DOF and the CAO as Board approval for any required individual budget adjustments, excluding capital projects and grants.

Effect

Adjustments to the budget may occur which the Board may not have approved if the adjustments were being reviewed on an individual basis.

Recommendation

The Board should approve all increases in appropriations at the legal level of budgetary control, which for the County of Marin is the object level within a budget unit. The County has implemented procedures to address this recommendation for the fiscal year ending June 30, 2010.

Management Response

All budget adjustments are now presented monthly to the Board of Supervisors for approval. Additionally, the Department of Finance has requested IST to activate electronic budget controls.

COUNTY OF MARIN

Status of Prior Year Recommendations
For the Year Ended June 30, 2009

Recommendation	Status
REPORT TIMELINESS	
We recommend the County consider the staffing assigned to financial reporting objectives to ensure it is sufficient to permit timely preparation of the financial statements in the future. We also recommend that the County develop IT solutions that can be used on an ongoing basis to easily extract the data necessary to prepare financial statements and perform the audit.	Implemented
ACCOUNTING FOR GOVERNMENTAL TRUST FUNDS	
We recommend that the Department of Finance consider utilizing its accounting system to account for the activity of governmental trust funds rather than the labor-intensive process of transferring data onto spreadsheets and to budget for trust fund activity. To implement this process, the Department of Finance will need to close out the governmental trust funds from the trust funds where they are currently being reported and either combine the balances with an existing governmental fund or create new funds that use the budgetary object code reporting structure.	Implementation is continuing
BUDGETARY CONTROLS	
We recommend that the County consider the feasibility of implementing an automated control within the SAP system that would warn appropriate officials when salary expenditures exceeded budget or were projected to exceed budget, without actually preventing the issuance of payroll checks. We also recommend that the County perform more frequent comparisons of actual expenditures to the adopted budget to ensure that modifications to the budget are submitted to the Board for review in a timely manner and that over-spending is not allowed. Implementing such reviews would assist the County in dealing with potential problems proactively before actual obligations were incurred.	Implemented June 2010
FUNCTIONAL EXPENDITURE REPORTING IN SAP	
We recommend that the County create and associate each revenue account and expenditure account within SAP with one of the seven standard functions used by the California State Controller's Office and create a report within the SAP system that allows easy access to this data. The County may wish to use the spreadsheets already prepared as a basis for assigning the accounts to functional categories.	Implemented

COUNTY OF MARIN

Status of Prior Year Recommendations
For the Year Ended June 30, 2009

Recommendation	Status
BOARD APPROVAL OF BUDGET ADJUSTMENTS	
We recommend that the Board should approve budget adjustments on an individual basis.	Implemented June 2010