COUNTY OF MARIN

Management Report
For the Year Ended June 30, 2009

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For the Year Ended June 30, 2009

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GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Supervisors
County of Marin

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, 2009, 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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, as defined above. In addition, because of inherent limitations in internal controls, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

During our audit we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions concerning these matters. We previously reported on the County's internal control in our report dated August 17, 2010. This letter does not affect our report dated August 17, 2010 on the financial statements of the County of Marin.

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To the Board of Supervisors
County of Marin

This report is intended for the use of management, the Board of Supervisors, 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
August 17, 2010

COUNTY OF MARIN

Management Report
Current Year Comments
For the Year Ended June 30, 2009

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 January 22, 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.

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 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 January 22, 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. No material misstatements were noted during the audit.

An audit adjustment of $2.1 million was made to the financial statements to adjust accounts receivable and intergovernmental revenue in the General Fund.

In addition there was one immaterial misstatement identified during the audit. Management has determined that its 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 $5,293,665 which represents the difference between fair market value and the amortized cost of investments reflected on the County's financial statements.

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 August 17, 2010.

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.

REPORT TIMELINESS

Criteria

Financial reporting entities exist in a dynamic, ever-changing operating environment. Information presented in financial statements provides the greatest benefit to users when it is available shortly following the end of the fiscal period presented in the statements. As a given set of financial statements grow older and new pressures and operating conditions arise, the older financial statements are less likely to convey those conditions in a way that allows users to make sound decisions. Consequently, both the California State Controller's Office and OMB Circular A-133 require submission of the County's final audited financial statements by the end of nine months following the close of each of the County's fiscal years.

Condition

Since the finalization of the fiscal year ended June 30, 2008 audit report which was issued in January 2010, the County has worked diligently with the Auditor to prepare for the June 30, 2009 audit. The County's books were closed by the end of April 2010 and fieldwork was conducted in June. The draft financial statements were completed in early August 2010 and the final audit report for this period was not issued until August 18, 2010.

Cause

Since the County's transition to its current accounting system, SAP, the County has not been able to close its books and prepare for the audit in a timely manner. This was due to a number of reasons including the reassignment of key staff to the SAP implementation team as well as problems with the conversion.

Effect

The County has not been able to submit on-time reports for the past three fiscal years and therefore has not been in compliance with the requirements of OMB Circular A-133, the California State Controller's Office, and other entities to which it had agreed by contract to furnish the audit report by an earlier date. Late submission of reports could cause the County to lose funding from various agencies.

REPORT TIMELINESS (continued)

Recommendation

We recommend that the County continue with its efforts to dedicate staffing assigned to financial reporting objectives to ensure that it can meet the required deadlines for the 2010 audit. The County has made great improvements in preparing for the 2009 audit and appears to be on the right course to becoming compliant with the requirements of the California State Controller's Office and OMB Circular A133.

Management Response

We agree that "timeliness" is a cornerstone of financial reporting and accordingly have invested the proper staffing to adequately work around the issues caused by the SAP conversion and deficiencies in work processes. We have made substantial progress in "catching up" with reporting timeliness and will be time compliant with the issuance of the June 30, 2010 financial report.

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 and the County Administrator's Office jointly have prepared a solution to correctly account for "trust funds" as "government funds" along with the necessary amendments to the County's budget process. We expect implementation in the later part of 2010.

NETTING OF RECEIVABLES AGAINST ADVANCES

Criteria

Except in special, specifically defined circumstances, the financial statements should not net assets and liabilities together, as doing so obscures the true financial position of an entity by rendering readers unable to evaluate each balance sheet account separately.

Condition

While gaining an understanding of the composition of the County's accounts receivable balances, we learned that the receipt of social services advances, which result in an unearned revenue liability, are being offset against customer accounts receivable entries in accounts 1130120 · Advances – Customer and 1130105 · Accounts Receivable – Customers. The sum of the two accounts is being reported as the County's accounts receivable balance.

Cause

By not using a separate account for advances as a liability account, advances and accounts receivable are being treated as similar accounts.

Effect

The netting of unearned revenue and accounts receivable transactions referred to above results in the reporting of a composite balance that represents neither an asset nor a liability and is of limited benefit for financial statement users.

Recommendation

We recommend that the County separate out the reporting of unearned revenue transactions from accounts receivable transactions to promote clarity in presentation. This is a repeat of a prior year recommendation.

Management Response

The business processes of recording "advances" and "receivables" has been corrected during fiscal year 2010.

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

The Department of Finance and the County Administrator's office revised the process to adjust budgets beginning July 2010. All budget adjustments will be presented to the Board of Supervisors for approval and only changes within a "budget unit" will be processed by Technical Adjustments.

CONTROL OVER PAYROLL

Criteria

Control over changes to master data kept in personnel files, including pay rates, requires that appropriate authorization be given and recorded to prevent fraud and errors. Records demonstrating this authorization should be complete and timely.

Condition

Review of personnel files in the Human Resources Department revealed incomplete records and inconsistent documentation.

- While conducting the audit, we encountered multiple cases where personnel documents could not be provided demonstrating the authorization of step increases.
- In several instances the personnel action forms recording step increases were not signed by either the department requesting the action or the human resources department.
- In several instances pay rates used to calculate payroll could not be reconciled to personnel action forms or other authorized increases.
- It was also noted that in several instances pay rates used in the Mars payroll system did not reconcile to pay rates used after cutover to SAP payroll system.

Cause

Inadequate enforcement of monitoring and record keeping over personnel files has allowed controls over the changing of pay rates to be neglected.

Effect

When controls over the maintenance of employee records are not enforced, fraudulent or inaccurate payroll processing becomes more likely.

Recommendation

We recommend that controls be implemented and enforced to ensure that changes in employee pay rates are appropriately authorized and approved. We also recommend that record keeping practices be implemented to ensure that all employee records are complete and maintained.

CONTROL OVER PAYROLL (continued)

Management Response

The Department of Finance will work with the Human Resources Department to review related work processes and strengthen controls over changes to employee master data.

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
BUDGET TO ACTUAL REPORTING	
We recommend that the County consider whether the level of detail in SAP is appropriate for reconciling or agreeing actual revenues and expenditures to budget and to meet the financial reporting objectives and to make necessary adjustments.	Implemented
NETTING OF RECEIVABLES AGAINST ADVANCES	
We recommend that the County separate reporting of unearned revenue transactions from accounts receivable transactions to promote clarity in presentation.	Implementation is continuing
FINANCIAL STATEMENT PREPARATION AND APPLICATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES	
We recommend that the County continue to modify the SAP system to accurately process and record the business transactions is such a way to generate assurance as to accuracy and completeness of the financial information recorded. In addition, County staff, both in the Department of Finance and other departments which post to the accounting system should continue to be trained in the skills necessary to accurately and competently fulfill their responsibilities.	Implemented
BOARD APPROVAL OF BUDGET ADJUSTMENTS	
We recommend that the Board should approve budget adjustments on an individual basis.	Implemented June 2010
MISSING EMPLOYEE TIMESHEETS	
We recommend that timesheets be completed and authorized by all employees. We also recommend that all timesheets be maintained of a reasonable period of time and be accessible.	Implemented